House of Commons

Committee of Public Accounts

HM Treasury: Whole of Government Accounts 2010–11

Thirty-seventh Report of Session 2012–13

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.
Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

The Whole of Government Accounts (WGA) combines the financial position of some 1,500 public sector bodies to provide the most complete picture available of government's total finances. The Treasury published the audited WGA for the financial year 2010-11 in October 2012. This is the second WGA and the first to have comparative data from the previous year.

The WGA shows that the annual deficit was £94.4 billion in 2010-11, a reduction of £68.3 billion from the £162.7 billion deficit in 2009-10. However, the 2010-11 accounts include a gain of £126 billion from an assumed reduction in the public sector pension liability as a result of the Government's decision to change the measure of inflation used to uprate payments to pensioners from the Retail Price Index to the Consumer Price Index with effect from 1 April 2011. Without this change, the deficit for 2010-11 would have been £220.4 billion.

The WGA also shows that at the end of 2010-11 the government had net liabilities—the difference between the government's assets and liabilities—of £1,193.4 billion, which is similar to the figure of £1,212 billion at the end of the previous year. The total future obligations for the 706 PFI contracts contained in the accounts are estimated to be £144.6 billion. The WGA also contains provisions of £17.5 billion for claims for clinical negligence, £60.9 billion for the estimated cost of nuclear decommissioning, and £18.7 billion for irrecoverable debts.

The Treasury acknowledges the potential of the WGA to help it manage the public finances more effectively. But the Treasury does not have a clear plan to realise that potential or improve the quality and timeliness of the WGA to improve its usefulness. For example, the accounts could be used to identify and manage key financial risks and pressures, and report on the effectiveness of government policies aimed at reducing the UK's annual deficit and government debt. Key issues identified in the accounts on which the Government should act include the spiralling cost of clinical negligence claims and the estimated costs for nuclear decommissioning. The Government also needs to perform better at collecting all monies due to all agencies and reducing the estimated £21.2 billion a year lost in the public sector through fraud and error.

The accounts should also be regularly considered by all departmental management boards. Where cross-departmental issues are identified, such as the increasing claims for clinical negligence, the Treasury should ensure action is taken across Government. The WGA could also be used to highlight the burden of past decisions on the public purse such as the on-going cost of nuclear decommissioning. More needs to be done to make the accounts easier to understand. The WGA would also be more useful if it contained sufficient information to enable a detailed analysis by region or by category of spend.

It took the Treasury 19 months to publish the WGA. This means that the information it contains is out of date. This, coupled with the issues that led the Comptroller and Auditor General to qualify his audit opinion on the accounts for a second year, undermines the WGA's usefulness. Part of the Treasury's role, as Ministry of Finance, is to ensure that the

relevant public sector bodies, including government departments, are on track to resolve these qualification issues as quickly as possible. The quality of the data provided by some public sector bodies was an issue, with some academies failing to provide any data and others providing un-audited information. The Treasury does not have effective sanctions or incentives in place to encourage bodies to submit better quality data.

It is also important that the accounts give a complete picture. The 2010-11 WGA includes the Bank of England for the first time, but it still does not include all bodies owned and controlled by government, leading to an accountability gap. The Treasury could not provide a convincing explanation for the on-going exclusion of organisations such as the Royal Bank of Scotland, Lloyds Banking Group and Network Rail from the WGA which, under normal accounting rules, should be included.

On the basis of a Report by the Comptroller and Auditor General,[1] we took evidence from the Treasury on the Whole of Government Accounts.

1 HM Treasury, Whole of Government Accounts: year ended 31 March 2011, HC 687 October 2012

Conclusion and recommendation

1. **The Treasury does not have a clear plan for turning the WGA from an elaborate accounting exercise into a more meaningful document that helps shape the management, direction and reporting of the public finances**. The Treasury should, in consultation with key stakeholders such as Parliament and the National Audit Office, carry out an immediate stocktake of the opportunities the WGA presents to improve financial management, and formulate a clear plan for how it will use the WGA to assist its management of public finances. The plan should set out how the Treasury will:

- report in the WGA how it has discharged its finance ministry function, including what action it is taking to improve performance in key areas such as debt collection and minimising losses through fraud and error;
- include in the WGA key risks to public finances and how they are being managed, including cross-departmental issues such as reducing claims for clinical negligence;
- use the WGA to help inform spending decisions, particularly those that involve long term liabilities, such as the costs of nuclear decommissioning and PFI;
- reduce the time it takes to deliver a published account and reduce the number of qualifications;
- put in place sanctions and incentives, so that all bodies submit data that is complete, timely, and auditable;
- improve the presentation and usability of the WGA so that it is both clear to the lay reader, and comprehensive, with more information to facilitate detailed analysis by category of spend; and
- comply with normal accounting rules so that all bodies owned by government and those over which government exerts control are consolidated within the WGA

1 Timeliness, quality and completeness of the Whole of Government Accounts

1.The Treasury published the audited WGA for 2010-11 on 31 October 2012. The account sets out the combined financial position of some 1,500 public sector bodies, including central government departments and their arm's length bodies, and local authorities, for the year ended 31 March 2011. As such, the WGA presents the most complete picture of the government's finances within one set of financial statements. This is the second WGA to be published, and the first to include comparative data from the previous year.[2]

2. The WGA shows that the annual deficit was £94.4 billion in 2010-11, a reduction of £68.3 billion from the £162.7 billion deficit in 2009-10. However, the 2010-11 accounts include a gain of £126 billion from an assumed reduction in the public sector pension liability as a result of the Government's decision to change the measure of inflation used to uprate payments to pensioners from the Retail Price Index to the Consumer Price Index with effect from 1 April 2011. Without this change, the deficit for 2010-11 would have been £220.4 billion.[3]

3. The WGA also shows that at the end of 2010-11 the Government had net liabilities—the difference between the government's assets and liabilities—of £1,193.4 billion, which is similar to the figure of £1,212 billion at the end of the previous year.[4] The total future obligations for the 706 PFI contracts contained in the accounts are estimated to be £144.6 billion.[5] The WGA contains provisions of £17.5 billion for claims for clinical negligence, £60.9 billion for the estimated cost of nuclear decommissioning and £18.7 billion for irrecoverable debts.[6] An estimated £21.2 billion is lost each year in the public sector through fraud and error.[7]

4. The Treasury produced the 2010-11 WGA one month earlier than the 2009-10 account. But this was 19 months after the accounting period being reported on. The Treasury acknowledged that it needs to publish the WGA more quickly and told us that it aims to publish the audited 2011-12 WGA by July 2013. In the medium term, it aims to produce the accounts by the December following the end of the year and believes this ambition to be challenging but achievable.[8]

5. When the first WGA was published, work on the 2010-11 WGA was well underway so there was little opportunity for the Treasury to implement improvements for 2010-11. However, the 2010-11 accounts were improved by adding comparative data, changing accounting standards used by local government to be more consistent with central

2 HM Treasury, *Whole of Government Accounts: year ended 31 March 2011*, HC 687 October 2012, pages 76, 83

3 HM Treasury, *Whole of Government Accounts: year ended 31 March 2011*, HC 687 October 2012, pages 51, 91

4 Q 31, HM Treasury, *Whole of Government Accounts: year ended 31 March 2011*, HC 687 October 2012, pages 91-94

5 HM Treasury, *Whole of Government Accounts: year ended 31 March 2011*, HC 687 October 2012, page 167

6 HM Treasury, *Whole of Government Accounts: year ended 31 March 2011*, HC 687 October 2012, page 154

7 Cabinet Office, *Tackling Fraud and Error in Government*, February 2012, page 6

8 Qq 1, 14

government, and including more bodies, such as the Bank of England. However, the Comptroller and Auditor General (C&AG) again qualified his opinion on the accounts because:

- the WGA boundary did not follow accounting standards;
- the valuation of infrastructure assets was not consistent across the whole of government;
- there was insufficient evidence that intra-government transactions and balances had been eliminated;
- he disagreed with the accounting treatment for the sale of the 3G telecommunications licences; and
- some of the accounts of the bodies included in the WGA were themselves qualified. The statutory audit of the Ministry of Defence's Resource Accounts and the Cabinet Office: Civil Superannuation Resource Accounts for 2010-11 resulted in qualified audit opinions, and those qualifications are material to the 2010-11 WGA.

6. The C&AG also included an additional qualification over the failure to ensure all schools and academies provided complete and accurate accounts.[9]

7. The Treasury told us that there had been some improvements on the qualification issues but believed there was still "a long way to go" and that it would take several years to "make serious inroads" into these matters. Concerned about the quality of information, we asked the Treasury whether it had sanctioned any academies for failing to provide proper data. The Treasury told us that for 2010-11 it had agreed that not all academies had to provide data, but that there were no such exemptions for 2011-12. This is particularly important given that the number of academies increased from 470 in March 2011 to 2,309 a year later. In relation to sanctions, the Treasury told us that if academies do not provide the required information they would "go back to the Education Funding Agency and ask them what they are going to do about it."[10]

8. Although the 2010-11 WGA includes the Bank of England's finances for the first time, the WGA still does not show the full extent of the government's assets and liabilities. When the WGA was first established, the Treasury chose to follow the classifications used by the Office for National Statistics in preparing the National Accounts rather than normal financial accounting rules. As a result, the Treasury excludes Network Rail, which the government owns, from the WGA. The Treasury also excludes four government owned banks from the WGA. The Treasury told us that it plans to consolidate two of the banks, Northern Rock Asset Management and the Bradford and Bingley Building Society, into the WGA in time for the 2013-14 accounts. However, the Treasury does not plan to consolidate the Royal Bank of Scotland and Lloyds TSB, on the grounds that its ownership is more short term and to do so would be a large and complex exercise and the banks

9 HM Treasury, *Whole of Government Accounts: year ended 31 March 2011*, HC 687 October 2012, pages 43-46

10 Qq 1, 62 - 68

would dominate the account figures. The Treasury's position leaves the WGA being prepared on a basis that is at odds with normal financial accounting rules.[11]

11 Q 99

2 Using the Whole of Government Accounts

9. The Treasury is responsible for advising Ministers of the financial risks related to economic policy options, such as the consequences of borrowing or investing in infrastructure.[12] We believe that the WGA could enable the Treasury to fulfil its role as the UK's Ministry of Finance more effectively. For example, the WGA could be used to show the progress the Treasury has made in managing the nation's key financial risks, identify trends over time, highlight the financial consequences of past decisions, and avoid lumbering future generations with costs not recognised at the time.[13] We asked the Treasury whether it was using the WGA. The Treasury noted that, with time, the WGA would become more important, but noted that it was already making a difference to managing the public finances, and gave the example of the role that the WGA played in the government's planned new framework for PFI liabilities.[14] The Treasury also noted that the WGA provides a different way of measuring, for example, the size of the deficit and government liabilities, to the national accounts approach, and that it was important to use both the accounting and economic approaches to better inform financial planning.[15]

10. The C&AG's report on the 2010-11 WGA shows the Nuclear Decommissioning Authority's estimated cost of civil nuclear decommissioning increased by around £16 billion to £53 billion between 2007 and 2011. We asked the Treasury how the WGA would be used to influence any decision made in relation to future investments in the nuclear sector. The Treasury acknowledged that not considering these costs when the power stations were built had been a mistake, and considered that the critical issue was to factor in these costs in future, so that the taxpayer would not be burdened with unexpected additional costs of £60 billion.[16]

11. As the WGA brings together financial information from across central and local government, it has the potential to enable government bodies to identify mutual interests and risks, and so facilitate better joint working.[17] For example, between 2007 and 2012 the forecast cost of clinical negligence more than doubled to £18.9 billion.[18] The Treasury believed that this was largely due to the rise in 'no win, no fee' offers by the legal profession and told us that the WGA was encouraging the Ministry of Justice and the Department of Health to work together to reduce the cost of clinical negligence, but acknowledged that it will take a while for the cost of clinical negligence to come down. [19]

12 Q 39

13 Qq 1, 52, 91,

14 Q 1

15 Qq 10, 31-35

16 Qq 90-97

17 Qq 52, 54, 56

18 Qq 42,

19 Q 42

12. The Treasury told us that departmental boards would have signed off their own accounts that feed into the WGA, but could not confirm whether those boards had considered the WGA. The Treasury acknowledged that it needs to find a better way to communicate to departments what the headline results in the WGA mean for them, and told us that it was also keen to have a shorter, more accessible version of the accounts for people who are less financially literate.[20] In addition, the Treasury informed us that it had begun to take steps towards ensuring that the WGA was used by its departmental spending teams in discussions with departments.[21]

13. The WGA does not contain information to enable detailed analysis of spend by region. The Treasury told that it does not rule out producing that sort of information in the WGA in the future, but that it would first like to make more progress with reducing the number of qualifications and improving the quality of the data.[22]

20 Q 8-9

21 Q 11

22 Q 114

Formal Minutes

Monday 11 March 2013

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon
Guto Bebb
Jackie Doyle-Price
Meg Hillier
Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Ian Swales
Justin Tomlinson

Draft Report (*HM Treasury: Whole of Government Accounts 2010–11*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 13 read and agreed to.

Summary agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Thirty-seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 6 March.

[Adjourned till Wednesday 13 March at 3.00 pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012–13

First Report	The Government Procurement Card	HC 1915
Second Report	Mobile Technology in Policing	HC 1863
Third Report	Efficiency and reform in government corporate functions through shared service centres	HC 463
Fourth Report	The completion and sale of High Speed 1	HC 464
Fifth Report	The Regional Growth Fund	HC 104
Sixth Report	HM Revenue & Customs: Renewed Alcohol Strategy	HC 504
Seventh Report	Immigration: The Points Based System – Student Routes	HC 101
Eighth Report	Managing early departures in central government	HC 503
Ninth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 526
Tenth Report	Implementing the transparency agenda	HC 102
Eleventh Report	Improving the efficiency of central government office property	HC 288
Twelfth Report	Off-payroll arrangements in the public sector	HC 532
Thirteenth Report	Financial viability of the social housing sector: introducing the Affordable Homes Programme	HC 388
Fourteenth Report	Assurance for major projects	HC 384
Fifteenth Report	Preventing fraud in contracted employment programmes	HC 103
Sixteenth Report	Department of Health: Securing the future financial sustainability of the NHS	HC 389
Seventeenth Report	Department of Health: The management of adult diabetes services in the NHS	HC 289
Eighteenth Report	HM Treasury: The creation and sale of Northern Rock plc	HC 552
Nineteenth Report	HM Revenue & Customs: Annual Report and Accounts 2011-12	HC 716
Twentieth Report	Department for Energy and Climate Change: Offshore electricity transmission–a new model for infrastructure	HC 621
Twenty-first Report	The Ministry of Justice's language service contract	HC 620
Twenty-second Report	British Broadcasting Corporation: Off-payroll contracting and severance package for the Director General	HC 774

Twenty-Third Report	Department for Work and Pensions: Contract management of medical services	HC 744
Twenty-Fourth Report	Nuclear Decommissioning Authority: Managing risk at Sellafield	HC 746
Twenty-Fifth Report	Funding for local transport: an overview	HC 747
Twenty-Sixth Report	The Department for International Development: The multilateral aid review	HC 660
Twenty-Seventh Report	HM Treasury: Annual Report and Accounts 2011–12	HC 659
Twenty-Eighth Report	Department of Health: The Franchising of Hinchingbrooke Health Care NHS Trust and Peterborough and Stamford Hospitals NHS Foundation Trust	HC 789
Twenty-Ninth Report	Tax avoidance: tackling marketed avoidance schemes	HC 788
Thirtieth Report	Excess Votes 2011–12	HC 959
Thirty-first Report	Department for Transport: Lessons from cancelling the InterCity West Coast franchise competition	HC 813
Thirty-second Report	Ministry of Defence: managing the defence inventory	HC 745
Thirty-third Report	The Work Programme	HC 936
Thirty-fourth Report	Managing Budgeting in Government	HC 661
Thirty-fifth Report	Restructuring the National Offender Management Service	HC 717
Thirty-sixth Report	HMRC: Customer Service	HC 869

Oral evidence

Taken before the Committee of Public Accounts

on Monday 21 January 2013

Members present:

Margaret Hodge (Chair)

Stephen Barclay
Guto Bebb
Jackie Doyle-Price
Chris Heaton-Harris
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales
Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, **Steve Corbishley**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

Whole of Government Accounts 2010–11 (HC 687)

Examination of Witnesses

Witnesses: **Sir Nicholas Macpherson**, Permanent Secretary, HM Treasury, **Sharon White**, Director General Public Services, HM Treasury, and **Karen Sanderson**, Deputy Director to the Whole of Government Accounts, gave evidence.

Q1 Chair: Welcome. We are very interested in this document. I will start by saying well done on getting it out with its improvements this year. Hopefully we will see further improvements, because we intend to focus on it over the coming period. Just to give you some idea of how we will try to manage the session, we are going to start with how and whether you use it, and then deal with the key things that we think it tells us from our perspective. There will then be a little bit about the scope at the end.

I want to start with how and whether you use it. We think it is a useful document. It has got some really important indicators about trends in Government spending that should be informing decision making right across Government. We are anxious that we do not think that you take seriously enough your role as the Finance Ministry in making sure that the Government as a whole really have regard to what we are uncovering in this new way of looking at Government expenditure. Nick or Sharon, do you want to comment on that as a starter?

Sir Nicholas Macpherson: I would be happy to, but Sharon is the accounting officer for the whole of Government accounts, so I will defer to her even more than usual today.

The first thing that I would say is that we share your view that the whole of Government accounts is important, and I think it will become more important. In many ways we are on a journey. This was a massive project when it was first set up more than a decade ago. We have now published two whole of Government accounts. With time, we will get more of a time series. There are some really important areas where the whole of Government accounts is already making a difference. I can give the example of the Government announcing at the time of the autumn statement that they are going to develop a new framework around PFI wider liabilities. That, in a sense, is using the information available here and from other sources better to manage the Government's balance sheet. Pensions were another example.

Sharon is about to lead on a spending round and, for future spending rounds, whole of Government accounts will inform activity more and more. There is just one caveat: whole of Government accounts are still being qualified by the Comptroller and Auditor General. There have been some improvements this year, but there is still a long way to go. Given the lags in the production of WGA, it will be several years until we make serious inroads into Amyas's qualifications.

The other point I would make is on lags in publication. All of us share an intention to turn it round quicker. We are one month earlier than last year, but it would be really nice to get this out before the summer recess. Our ultimate target is to publish it within nine months of the end of the financial year. It is really important that we all keep up the pressure on Departments. The Comptroller and Auditor General may be able to correct me, but there is one Department—or possibly two—that has not published its accounts for last year. I think it is incumbent on all of us to keep up the pressure on producing accounts quickly and on improving financial management within Departments. The Treasury will do its bit, but a bit of accountability before the PAC goes much further than you probably realise. My experience from dealing with some of my colleagues is that they are far more frightened of you than they are of me.

Chair: Flattery will get you everywhere.

Sir Nicholas Macpherson: Sharon may want to add something on the detail.

Q2 Chair: Okay. That was almost an introductory statement, so maybe we will go to Sharon, because I noticed on your statement of internal control, on page 35, that you see your function to be far more about just ensuring that they are accurate and that you get Amyas off your back—that sort of thing—rather than focusing on that wealth of key information and on ensuring that Departments take this seriously. We are worried about that, because we think that you are too timid—we may not be timid—or that for some reason you are not seeing it as your job to say, "Look. This is what it says here. You have to reflect that both in how you plan for the future and in how you spend for the future."

Sharon White: I wanted to raise a slightly broader point, which complements this, because it is pretty accurate to say that we can make more progress in embedding this. It points to a wider issue about the Treasury spending team which, as you know, is the key set of people working within the Treasury who have that relationship with the Departments. We are increasingly trying to build the skills of the Treasury spending team so that it is much more focused on core spending control, implementation and spotting financial risk.

It is no secret that if you went to a classic Treasury spending team five, six or seven years ago, you would find that they were very good at writing new policy papers and new strategies for the Departments that they were focused on. I think the whole of Government accounts is incredibly powerful because it gives ammunition to the spending team to say, "Look, if you are having that conversation with the permanent secretary or the accounting officer, it can be about not only how the Department of Health is living with its current spending review efficiency savings, but how it feels about the next five or 10 years of potential financial risk." This document starts to give you an indication about where you should be looking.

The WGA is beginning to give us increasingly more of the ammunition, which fits in very well with the changes that we are trying to effect in the Treasury. We want to get our teams much more focused on spotting and working with Departments on control of spending and financial risk. As Nick says, it is a challenge for us and the team to make sure that that information is more timely so that it is a nine-month lag between the end of the financial year and the production of the WGA, not two years. If you are a spending team reading this, you think, "Well, of course I know what has happened with public sector pensions, because we effected that big change in SR10 to make the switch from RPI to CPI," but, increasingly, this is going to be an incredibility powerful tool for us.

Q3 Chair: Let me just ask a question: does the WGA go to your directors' panel or board—whatever you call it? Does it go to the Treasury's board—I know it never meets, but in the hope that it does meet? We found that it met once when we looked at your reports and accounts. Does this go to your board?

Sir Nicholas Macpherson: In its guise, and as chaired by the Chancellor of the Exchequer, it met once, but it met several times in its committee—

Q4 Chair: Does this go to it?

Sir Nicholas Macpherson: Yes, it will do. It also goes to our audit committee.

Q5 Chair: It will do. When was this?

Sir Nicholas Macpherson: It went round our audit committee.

Sharon White: The audit committee is, as you know, the sub-committee into the board. One of the things that we effected last year, partly on the NAO's advice, was in relation to the fact that there was no proper assurance within the Treasury of the WGA. We had a fantastic advisory board—we still do—on which we have the NAO represented, but we did not have a proper Treasury internal audit with a dotted line up through to the departmental board. That we have changed, and it started to come into effect from January this year.

Q6 Chair: When was this published?

Sharon White: This was published in October 2012.

Q7 Chair: We are now in January. It is going to the audit committee.

Sharon White: But we made the decision to switch to the audit committee in September, ahead of publication.

Q8 Chair: Does it go to the boards of all the Departments?

Sharon White: There were two key avenues and channels for us. One is to make sure that the WGA is properly socialised within the Treasury and within Treasury spending teams—that is work in progress. We are keen to have a shorter, more accessible version for people who are less financially literate. The other key avenue is—some of you will know this from your discussions with Departments—the finance leadership group, which is the group of all the finance DGs across Government, and that is a very key audience for us. A sub-set of them sit on the advisory board, which helps us to work through how we are going to make improvements the following year, how we are going to deal with some of the qualifications and how we make sure that we get the right balance between the cost of further work versus the benefits of improving the quality of the reporting.

Q9 Chair: But if this Government decided that the boards were going to be a key vehicle for control and planning—if that was a new decision of the coalition Government—I would have expected a document of this nature to be considered by the boards of every Department.

Sharon White: I will take that point on. We have tended to use the conversations that happen between the spending team and the DG for finance—and, increasingly, between the spending team and the lead non-executive who sits on the board. Increasingly, NEDs have seen it as their job to be challenging their own Departments on efficiency and financial risk. So the spending team might not take along the WGA, but it will say, "Actually we are really worried about possible contingent liabilities. As you know, we have these new guarantee schemes for infrastructure and housing. We will be able to see from the WGA reporting how the contingent liabilities have been set out in relation to the financial crisis." Increasingly, the conclusions, if not the document per se, are definitely feeding through to our conversations about implementation.

Sir Nicholas Macpherson: I just add that, obviously, every departmental board will sign off the accounts of the individual Department. The challenge that you are giving us, which ties in with Sharon's point about having a better summary, is to feed back to all departmental boards about what this all means in aggregate. If we can find a better way of communicating that, it will get more traction.

Q10 Chair: Last year, you rejected our recommendation that you should be managing the public sector finances and the associated risks. You said that it was for the accounting officers to manage that. We were somewhat dismayed by your rejection and we ought to have picked it up, given one of Steve's points earlier, but we have the opportunity of doing that today. We think that you do have a responsibility. We will keep banging on about this and we are not going to let you get away with it, because we think that this is a really important piece of work. We think that you do have a responsibility, and part of that responsibility is to ensure that the accounting officers also accept their responsibilities. We will come back to why you have a particular one, because it is cross-Government stuff, but we do think you have it, and we were surprised that you rejected our recommendation. We hope that, when we repeat it this year, it will not be rejected. I do not know if you want to talk about that.

Sir Nicholas Macpherson: There are two things here. One is that we all share your objective to ensure that we have a really good grip across the public finances. This Committee and I, certainly, have discussed before things such as foundation trusts and academy schools. I take very seriously the qualification on academy schools, and I think that the Treasury will want to work with the Education Department to ensure that we do not have qualifications in future. It may take a few years to work that one through, but we need to make progress. We cannot just wash our hands of money that is devolved, so I agree with that. The second point is whether we should use this to set fiscal policy—the Budget, autumn statements and so on. Of course this should inform it, but it will never supersede national accounts measures of the public finances, and for two reasons. First, national accounts measures are produced internationally and recognised by the big economic institutions—whether that is the OECD, the IMF or credit rating agencies—so we will always use them, effectively, as management information and for month-by-month managing of the public finances. However, this can inform quite seriously the conduct of policy in relation to public finances, so while I would never want to use this as the sole input, it can play an important role. It may be that, in drafting our response last year, we did not quite get that message across.

Q11 Chris Heaton-Harris: A quick question for Sharon White. I did not understand what you meant when you said that we are going to socialise this document properly among the Treasury.

Sharon White: I am sorry—too many years in Washington.

Chris Heaton-Harris: Can you just explain that to me? I think I could have guessed, but I wanted to be very sure.

Sharon White: Apologies for my lack of clarity.

You met our equivalents—Nick and Andrew Hudson, in my shoes—last year. Then, on the structure of the Treasury, the Treasury spending teams—the set of people who face Departments—used to sit in one part of the building, and our financial management and reporting experts used to be in a separate group. They were actually physically in a different part of the building, so you had to work quite hard to find them. One of the issues that we had was that Karen and her team were doing great work, but there was actually not as much interchange as there should have been with the people who were having the conversation with Departments about financial risk.

One of the things that we have done in the past 12 months is to integrate or embed the financial experts and reporting teams, so Karen and her team, for example, now sit within the same group that runs our spending round. She is sitting alongside the people who are actually deciding how the process for all departmental budgets for 2015–16 is going to run. So a big part was just to try and bring out accountants—our experts—to sit alongside our spending control experts, but alongside that we also have a job of work. There will be some teams—the Health team is a really good example, because of the discussion around clinical negligence—that absolutely understand the importance and value of the WGA and our having those conversations with the Department of Health. There may be other teams that have not yet understood the value, strength and power of the WGA, beyond the national accounts, in terms of identifying and working with Departments on financial risk and control issues. As Nick said at the beginning, that is why it is a work in progress for us. We have made a lot of improvements—

Q12 Chris Heaton-Harris: So what you actually mean is that instead of just pinging an e-mail with it as an attachment and hoping that someone reads it and understands its significance, it is a general conversation going on throughout the day, every day, to inform better decisions.

Sharon White: Exactly. For example, we have a monthly meeting with the Chief Secretary to go through spending control issues. What has been very interesting is that, in the last year, most of those issues have not been policy related, but have been to do with financial risk and financial forecasting, some of which actually has been previewed in the WGA—some of which we spotted and were on top of. But on other issues, if we had had a stronger focus on financial risk, I think we would have been in a better position with the Department. So it is not just an e-mail. These are conversations. We are doing some training now, particularly for our economists, like myself—some people come in new to finance, and are new to the language and new to the presentation of the numbers—so that they can more easily read some of the accounts.

Q13 Ian Swales: I guess we are all a little bit concerned at how long these have taken to produce—19 months. You have been using the word "important" over and over again, the two of you, which I think we accept. So what is your aspiration for the speed of producing these? I think you have suggested nine months, which does not sound that challenging to me. What is your aspiration for how quickly these can be produced?
Sharon White: For the next set of accounts, we are hoping that we will publish an audited version—I am slightly looking at my colleagues with the NAO, because we are obviously in conversations about the audit process—by July 2013. I think you will recall this time round we had an unaudited summary, which we published, aligned with the fiscal sustainability report. We hope this time round to be able to have an audited version. Our medium-term ambition is definitely to try to truncate that gap down to about nine months. We are working as hard as we can. Some factors are not completely within our control. As Nick indicated, we are obviously reliant on the entities for whom this is an aggregate picture. So it is partly about making sure that we are having a conversation with Departments—that there is a timeliness there—and also with local government, who, as you know, have a slightly longer consultation process. But we have exactly the same objective, which is for these to be as contemporaneous as possible.

Q14 Ian Swales: And you think nine months is a reasonable medium-term target, given the complexities.
Sharon White: We think so. If we could possibly make it faster, we would do, but that seems to us very stretching but realistic.

Q15 Ian Swales: There is obviously a trade-off with resources, but you would not see those sorts of time scales in the private sector. That would be—
Sharon White: If you look at international comparisons with other whole of Government accounts, the UK is the only country that is consolidating not just central Government, but local and regional government. That is the scale of what we are trying to do.

Q16 Ian Swales: We look forward to that. I have a question for Karen Sanderson. I see from the brief you are a qualified accountant and you have had private sector as well as public sector experience. What is your view of how these Government accounts have been done in terms of things like recognition of liabilities, and to what extent is the Government following accounting standards?
Karen Sanderson: I think the Government is absolutely following accounting standards. I think as Sharon mentioned, the WGA is an aggregation of the accounts of each individual entity, and they produce their accounts in line with international financial reporting standards, as adapted and interpreted for the public sector, because there are some fundamental differences in places. We are using, effectively, private sector standards to produce the accounts, so I think the quality of the financial information in the accounts is comparable.

Q17 Ian Swales: What about the question of consolidation where the Government is 100% the owner or a large percentage owner of an activity—a bank, for example?
Karen Sanderson: We are in a slightly different position from a private sector organisation, which generally have the ability to, effectively, directly control all the entities that sit within their company structure. The relationships that we have with entities in the public sector are much more varied in nature, and the relationship of the Treasury itself with them is frequently much more indirect than you would encounter in the private sector, so we rely on a lot of good will and relationships to get the information that we need to do that.

Q18 Ian Swales: This is my last question on that front. How do you feel about the statement of liabilities in the account; the idea that we have recognised on the day of the accounts all the potential liabilities, contingent or otherwise? Do you put your professional hand on your heart and say, "This is as good a job as we can do."?
Karen Sanderson: Absolutely.

Q19 Ian Swales: You do? Pensions, even?
Karen Sanderson: Absolutely. The way that pensions are calculated is in line with accounting standards. There is no deviation from that. In terms of how accounting standards are defined, we are using those and they absolutely capture everything.
Ian Swales: Good.

Q20 Stephen Barclay: What work have you done to increase standardisation?
Sharon White: What do you mean by standardisation?

Q21 Stephen Barclay: If you are collating from 1,400-odd different bodies, there will be variants. Variants add complexity and complexity adds time. I have sympathy with you on the difficulty of collation; it is a huge exercise. One thing that I would have thought the Treasury would do is have a work stream in place—assuming you have—to standardise data to speed up. Could you describe that?
Karen Sanderson: It comes in at two different levels. Part of it is around the accounting policies and framework that is used across the public sector. We have been doing a lot of work to bring those in line. To the extent that we can, we are almost there. I say "to the extent that we can" because some bodies in the public sector are governed by their statutory background in how they have to produce their

accounts. Even if we wanted them to do it in a particular way, we cannot, because at the moment the legislation says that they have to follow particular guidelines in how they produce their accounts.

Q22 Stephen Barclay: Are you then feeding it into Parliament to change that legislation?
Karen Sanderson: In terms of future developments, absolutely. I think people are much more cognisant of the potential issues that this creates. There is obviously growing awareness around this. We are ensuring, as Sharon explained, in the conversations we have with other colleagues in the Treasury, that we are inputting to this and ensuring that we end up, as far as we are concerned, in a good place.
The other area around consistency is much more in the detail about how individual entities record particular transactions in their accounts. For example, if there were a body that sub-lets part of its building, some may treat it as the total cost of the building and then income; some may just put in the net cost. Of course, when you are trying to add that up, you don't end up with a consistent picture. That for us is much more evolutionary than revolutionary. We are discovering all the time that we have so many entities and it is so complex that this is a bit of a journey for us. You naturally start with all the big things that you can see are evidently not consistent. As time goes by we will bring them more and more into line.

Q23 Stephen Barclay: But two of the impediments to that are the Treasury's own rules. To take two examples from previous hearings; on the properties estate, it was the NAO's finding that the Treasury rules were getting in the way of property rationalisation, because there is little incentive for Departments to move into another building. At our recent hearing with foundation trusts about NHS efficiency, we found savings being put into the Department of Health that did not account one-off costs in delivering those savings. What work is being done to address those matters?
Karen Sanderson: Those are slightly different issues from what I am doing in this piece of work.

Q24 Stephen Barclay: It goes to the data quality that you are getting.
Karen Sanderson: It goes to some of the financial management processes in those bodies, because some of them are about how you budget for things and how you build up the business case for doing particular events. What WGA does is record after the fact what has happened in this particular piece of work. The issue that you refer to is more one about broader financial management, which we are trying to take steps to improve.

Q25 Stephen Barclay: Sure, but that is what this is collating. How do you incentivise people to respond quickly?
Karen Sanderson: That is quite a difficult issue, because if you are sat in a Department, frankly there is not an awful lot in it for you. This is just another piece of work that you are being asked to do with ever more constrained resources. That is quite difficult. We rely an awful lot on the professionalism of the people we work with, who understand the objectives of what we are trying to do. We have a conversation about what the art of the possible is and what good results are. We try to do quite a bit of working feeding back to people what the picture does. I do a lot of presentations and talk to people about what the WGA tell us and about plans going forward for how we use it potentially for their benefit in terms of how we allocate resources to make sure that they go to the right parts of the public sector.

Q26 Stephen Barclay: There is a lot of very good work going on in Whitehall with No. 10 on behavioural economics. Sir Gus O'Donnell wrote an article flagging a number of successes. It just seems a slightly mixed message to say this is a really useful tool, but we are not taking the lessons and applying them to incentivise people, but then to rely on their good will.
Sharon White: Perhaps I could just add a point. Some of the things we are looking at in the current spending round, and the Government's commitment in the autumn statement to set budgets by summer 2013 are exactly some of these points. The issue of property, for example, has come up from a number of Government Departments. With some of the issues raised in the WGA, we are looking at how we can help Departments with additional flexibility to help them through 2015–16. A similar point is developing some of their business cases. I think the more that Departments see the Treasury using the WGA and some of the key messages coming through in setting budgets, the more the incentive will be on Departments to take this seriously, not just because it is a product with an audience, but because it is important and useful for their own internal allocation process.

Q27 Stephen Barclay: I think the key point is behaviour. If you take the example of property, the finding was that most of the savings achieved on rationalisation came from Cabinet control of lease renewals. Very little had been done proactively, and the NAO brought that out in its report. That goes to the heart of human behaviour. What is not coming across is how difficult it is to collate. I would look at the scope to standardise and address some of the perverse Treasury rules that may be counter-productive. How do we incentivise people to submit quickly when they have many competing demands? That work is going on in other areas, and it would be interesting to see whether the Treasury could make better use of it.

Q28 Chair: Let's ask the question. Who was the worst offender in giving you data on time?
Karen Sanderson: As has been highlighted, I think two Departments have not yet filed their accounts for 2011–12, and we are still waiting for them.

Q29 Chair: Who are they? Is one the MOJ?
Sir Nicholas Macpherson: One is the Department for Culture, Media and Sport. We gave them a few months of extra time because of the Olympics. It is a

small Department, and we let them submit their accounts late, but both Amyas, I think, and I are slightly disappointed that it has yet to have its accounts audited. Are you going to do so before the end of January?

Amyas Morse: We are hoping that we will be able to help them with that. It is a question of what—

Q30 Chair: And the other is the MOJ.

Sharon White: MyCSP.

Karen Sanderson: Civil service pensions.

Sir Nicholas Macpherson: MyCSP, which I think is a Department you are focused on.

Chair: We will come back to pensions.

Q31 Austin Mitchell: I was a bit disconcerted to find that you have reduced the deficit with a conjuring trick—the change in pensions from CPI to RPI. Had that not been done, the deficit would have been £57 billion higher. There must be an enormous number of conjuring tricks. You can move paintings in and out of the Royal Academy; you can include Network Rail; you can affect more of the Post Office pension scheme. The number of conjuring tricks is limitless, is it not? Won't we need consistent practice, and does it not show a depressing picture of the deficit if we take the CPI to RPI change out of account?

Sir Nicholas Macpherson: The whole of Government accounts gives you one measure of the deficit, and the national accounts approach gives you a different measure. There are good things about each approach. This Committee has argued for a long time that the fact that PFI deals did not show up on the national accounts balance sheet was misleading. The WGA does take PFI into account. On pensions, it is a measure of a long-term liability, so in accounting terms it does have meaning. Equally, if you use it as a measure of what is really going on with the deficit in the short run, it might be slightly misleading. I think the critical thing is to be clear in explaining both approaches to the balance sheet. The independent Office for Budget Responsibility draws on both measures. We have never claimed that the pension measure reduced the deficit massively in 2010–11, although if you look at WGA, it appears that we did.

Q32 Austin Mitchell: The Government tell us that this is all about sustained confidence and the rating agencies. When they took over, they said that Labour had left things in such a mess that confidence was going to be destroyed, our national credit card would not be taken by any of the markets and the whole thing was about to collapse. Now the deficit has actually gone up and you are talking about different methods of conjuring and different approaches. This is just confusion, surely.

Sir Nicholas Macpherson: I don't think it is confusion. The alternative would be not to publish the WGA at all. I believe that the WGA adds really useful information. Nevertheless, tomorrow the Office for National Statistics will publish the public finances for the month of December. It won't have this particular measure of pensions in it, but it will still provide important management information to the Government. I hope that the rating agencies are sufficiently sophisticated that they can interpret both an accounting view of the public finances and an economic, or statistical, view.

Sharon White: I would also say that this comes back to the timeliness point. Obviously, 2010–11 is the base year for the coalition Government's fiscal reduction path. It will be two or three years before we begin to have meaningful comparisons with trends between the national accounts and the WGA bases. In the meantime, this Committee is valuable because it provides transparency and explanation about what is and is not counted in these two aggregates—unless, as you say, we move on to a single base, which I think would diminish, rather than enrich, our information base.

Q33 Austin Mitchell: But that is a statement of hope rather than certainly because there is no guarantee that the rating agencies will approach it with wisdom and sagacity. They could approach it in the way that the incoming Government approached our deficit in 2010—with shock and horror. With the different methods of rating things, you have done a conjuring trick. The Office for Budget Responsibility takes a different view of the sustainability of the deficit from you.

Sir Nicholas Macpherson: I would hope that the rating agencies can interpret this sensibly. We have all had issues with the rating agencies. I don't think they have had a particularly impressive financial crisis—they mispriced risk in the run-up to the crisis—and I would not become obsessed with their pronouncements now. Nevertheless, they are one particular constituency. It is incumbent on the Treasury and the Office for Budget Responsibility to set out as transparently as possible useful indicators on the public finances. I regard the WGA as an important input, but not the sole input.

Amyas Morse: I just wanted to ask something. We are not proposing that they are the sole input either, so it is helpful that we are in the same place—none of us are proposing that they are the sole input. It may help the Committee to have some insight into what does happen in terms of management of the balance sheet. Rather than debating what we are not asking you to do, it would be interesting to understand what actually happens. When your monthly national accounts figures come in, with or without the benefit of any thoughts about what accounting approaches there might be, it would be helpful to know what happens then in terms of the discussion or the Treasury expressing a view on corrections—I do not think that we have insight into how it works. It might be really instructive for the Committee, because we might expect to see that expressed through the whole of Government accounts retrospectively, and that that will reflect it in some way, but the interest is really in what actually gets done, is it not?

Sir Nicholas Macpherson: I will be very clear, because this is absolutely central to what the Treasury is about. Tomorrow, we will have some new public finance data. We will have detailed information on various tax heads, so we will know whether income tax is ahead of profile or behind profile, and we will be looking at VAT—the big taxes. We also have a lot of public spending information, which, because of the way it is all pulled together, is not quite as detailed as for tax, but it is really important that we understand what is going on, the better to influence short-term control but also planning for next year and beyond. Again, some of that data on, for example, social security, you get reasonably accurately. Understanding what is going on in local authorities and the public corporations is much more difficult, but in the Treasury we have people on the tax side, the spending side and economists on the fiscal policy side who will be sitting down and poring over that data, the better to inform financial planning.

Sharon White: Can I give a very specific example on the spending side? As many of you will know, one of the paradoxes of the last spending review is that although local government took a very significant hit, many or most local authorities have been building up reserves at a reasonably rapid rate, possibly rationing with the expectation that times will continue to be tough for a long time. One of the things that we will be looking at tomorrow is what is happening with the reserves, particularly with a mind to the fact that local government remains one of the coalition Government's so-called unprotected sets of spending. So how safe or risky it will be to reduce local government by a further measure once decisions are taken in the summer depends on whether there looks to be a turning point on those reserves.

Q34 Chair: The interesting thing about all that is that you are using the data in the Treasury to determine the allocations that you are going to give next time in the CSR. We will come to specifics on whether it is debt or pensions or whatever, but we want to see you using the data, both here and in that, to say, "Hang on there you guys, this is inexorably rising or it is completely out of profile. What the bloody hell are you going to do about it?"

Amyas Morse: Is that really not happening now, or are you actually doing that and just not telling us?

Sharon White: When I say that the Treasury are doing a spending round, I do not mean that there are somehow lots of people huddled in corners in the building.

Q35 Chair: So what do you do?

Sharon White: The local government spending team will be at CLG saying, "Look at the numbers. We thought that we were on this trajectory, but something looks like it has turned here—do you have an explanation?"

Sir Nicholas Macpherson: There will be a discussion going on with the finance sections of each Department, monthly, going into these issues. You mentioned debt, for example, and we will have a continuing dialogue with HMRC on that. Sometimes you do not make very much progress; sometimes you can really get focus on a specific issue. I come back to the benefit of whole of Government accounts: I think that it is successful in that. Rather like Mr Mitchell, I have always been quite sceptical about big figures on pensions—say it's a trillion, and it is all utterly terrible because we have £1 trillion of liabilities. If you capitalise future revenues this is not a particularly big deal. That is why it is important always not just to look at it through an accounting lens; you also need to look at it through an economic forecasting lens, where you can look at pensions expenditure in 2050 as a percentage of GDP, and it is under 1% of national income. That is still—1% is quite a lot, but it looks reasonably affordable.

Q36 Austin Mitchell: This question of deficit and borrowing is really at the centre of the political argument at the moment. On the Labour side—certainly on my side, which is a bit different from the Labour side, I would say "Increase borrowing and the deficit to spend and to boost the economy back to growth, which is the only way of paying off debt." The Government says, "Oh the deficit is horrifying. Debt is enormous. Our ratings will be affected and the country will collapse unless we put the first priority on reducing deficit and paying off debt by cutting everything." Those are two sharply opposed arguments which depend on the definition and the scale of the deficit. These figures are crucial. Here you are fiddling with the deficit and saying that it does not matter.

Sir Nicholas Macpherson: I am not doing any fiddling, I can assure you.

Austin Mitchell: You are fiddling in the sense that—

Sir Nicholas Macpherson: No, I really am not.

Q37 Austin Mitchell: It is very up and down, depending on various adjudications.

Sir Nicholas Macpherson: What I am saying, and I know it is frustrating, is that there are different ways of analysing different liabilities.

Q38 Austin Mitchell: Tell us how much of the deficit is due to the tax of misery and austerity: in other words, the fall in receipts because of the recession, and the increase in spending because of the benefits necessary to pay for unemployment. How much of the deficit is due to that?

Chair: You don't know.

Sir Nicholas Macpherson: I do not have the figures and it is quite a contentious value judgment you are making. As an official I try to avoid getting into that territory.

Chair: You are very good at occasionally passing it on.

Q39 Austin Mitchell: That is saying that the Treasury's decisions are not political judgments but ethereal diktats.

Sir Nicholas Macpherson: You are absolutely right. There is a trade-off in economic policy and at any point in time the Treasury will be advising Ministers about the balance of risks. Of course, when you consolidate, it may have a short-term macro-economic consequence. But, equally, not consolidating may have a consequence. In one sense Britain's debt in the recent past has not been that high by historical standards. The worry was the extraordinary rate at which that debt was expanding. Again, I don't want to get into party political points, but the fact was, round about 2009, 2010, 2011, we were borrowing more money as a percentage of national income than we had ever done before.

Q40 Austin Mitchell: But spending it on useful purposes to keep the economy going—
Sir Nicholas Macpherson: Absolutely. But if you are working in the Treasury you've got to keep a continuing eye on the medium term. What you really don't want is the deficit to start blowing out the debt. The problem about borrowing a lot is that you have to issue a whole lot of gilts. At the moment, we can fund ourselves very cheaply but other countries have found that this can change very quickly. At that point, if you've got a big funding requirement, higher interest rates can become a real brake on the economy. So there is a balance to be struck.

Q41 Austin Mitchell: You expect them to do so. You expect confidence to be maintained with this scale of deficit.
Sir Nicholas Macpherson: If you have a credible fiscal plan, you can maintain confidence. The question is whether you have a credible fiscal plan.

Q42 Chair: Okay. I am going to move us on to looking at what this tells us. I am going to start with NHS claims of negligence on page 70 of the Comptroller and Auditor General's Report. In 2007, our provision for that was £9.2 billion. By 2012, it had doubled. It had gone up to £18.9 billion. These are fantastic sums. If you look at what we paid out, the claims have increased by a third in 2010–11 over 2009–10. We paid out £911 million, which is two large hospitals. These are shocking stats—absolutely shocking. There seems to be an inexorable rise. There is a trend upwards.
You can do the same with decommissioning—some of us visited Sellafield—on the next page. But this NHS stuff is big bucks. It seems totally out of control. I have no idea whether you have shown this to anybody in the Department of Health. I have no idea who takes responsibility for it. We often have five of them there and it is difficult to find any of them accepting responsibility for anything. I do not know what you are going to do about it. We have this shocking, scary data. It is a ridiculous waste of money and I do not know where it is going.
Sharon White: Can I say a couple of things? This is partly about the Department of Health, but it is also partly, to be frank, about the Ministry of Justice and the way in which legal aid works. It is hard to pin down what the cost drivers are, but—
Chair: There is no legal aid here, Sharon.
Sharon White: But part of the issue, Chairman, is the question about the no win, no fee litigation framework around this. In the analysis that we have done, both with the Department of Health, and with the Department of Health talking to the Ministry of Justice, are these US-style frames of claims, which mean that you can basically sue whoever with no cost to you, because of the way in which the litigation works, and that has been changed in legislation that is coming through this April.
So I think this is partly about the Department of Health understanding where this too large a chunk of its protected budget is going, but it is also where the WGA is showing its power, because you are actually encouraging the Ministry of Justice to be in the same room as the Treasury, the NHS and the Department of Health and to say, "Actually, the legal framework that we have is encouraging and producing these costs in another key part of the public purse." These things take a while to run through the system, but I hope that when we are here in two years' time these numbers will start to look very different.

Q43 Chair: I hear that. Suppressing demand is what you are doing. From a constituency perspective, there are two things. People are more likely to assert their rights, and there are terrible things going wrong. In a maternity unit at my local hospital, claims have spiralled beyond belief, because of an outrageously poor quality of service. You do not want to deny people rights when things go horribly wrong with lifetime costs or a lifetime impact on the children and their families. You are looking at a tiny part. Putting the blame on that does not ring true from a constituency perspective. It is scary. It is quality of service as well as anything else.
Sir Nicholas Macpherson: The interesting question is whether we think the absolute level of the quality of service has declined, which is informing demand, or whether people are having ever higher standards and so are more likely to complain. There is quite a big cultural change. This country has become a lot more litigious. We see it in a lot of areas.

Q44 Stephen Barclay: That suggests that it has not been looked at closely. We looked at this last year. One of the factors is that claims against the NHS increased 20% more quickly than against the medical profession as a whole. Why is that?
Sir Nicholas Macpherson: We have been looking at it more closely. It comes back to Sharon's point.

Q45 Chair: That is an interesting question. Why is that?
Sharon White: It is hard to judge between an increase in reporting—so better reporting, more likelihood of reporting, and some increase in claims.

Q46 Stephen Barclay: You are right to say there are a number of factors. We looked at it last year. For example, survival rates are greater. Troops who would have died in Afghanistan now survive. That has a cost. Medical equipment has advanced, so rather than a bog standard wheelchair, you have a complex wheelchair that has a higher cost. But things are not clear. A third of what the NHS Litigation Authority paid out in 2010–11 went to lawyers. There is work to do to cut that, as it is still too high. Four times as much goes to claimant lawyers as defendant lawyers.
There are various initiatives that have not been taken forward. The mediation work that was done up in Scotland was not addressed in the UK. I come back to the behavioural issue. If we take a recent hearing, Peterborough hospital has four brand-new theatres paid for under PFI and is looking to mothball them to save staffing costs. Yet there is a clear benefit for clinical standards in using state-of-the-art theatres. We

should be discussing the service transformation that is the fiscal cliff that the NHS faces—to deliver 20% of the Nicholson challenge—in terms of things such as the clinical negligence bill. I would have thought the Treasury has a key role to play in doing so, but that debate does not seem to be happening.

Foundation trust hospitals are taking decisions in silos, because they are not incentivised in terms of the clinical negligence bill. From a Treasury rules point of view, how do you translate this massive liability that has gone up exponentially to the UK Exchequer as a whole into incentivising behaviours in individual hospitals?

Sharon White: I would not understate having the litigation framework in place. As you say, although it is probably one of several factors, we think it is a key one.

Q47 Chair: You think. You don't know, Sharon.

Sharon White: It is hard to say, Chairman, how far this is about litigious culture, how far it is about the new modes of litigation that we are now trying to knock back on, how far it is about additional reporting, how far it is about babies surviving at much earlier weeks of gestation. We have looked at this with the Department of Health and it is very hard to unbundle the different factors.

I heard your point about the Nicholson challenge. One assumes that, regarding the NHS, even if its budget is protected, for the WGA this analysis will be important for a period of time. The conversation we have with the Department of Health—"How is the efficiency challenge impacting on performance?"—goes right into whether the degree to which clinical negligence is now a factor for us in giving information in that dialogue about whether the savings that the NHS is having to make are impacting on performance. It also relates to a point that the Comptroller and Auditor General made in his recommendations for having a more functional breakdown of spending. Ideally, it would be great to understand how clinical negligence stacks up by hospital, at least by region.

Q48 Stephen Barclay: Do we have that?

Sharon White: We have some data, but they are not consistent or standardised.

Chair: I know the data for my hospital.

Q49 Stephen Barclay: For more than 10 years we have been debating trying to get data around surgical performance. We had this exact debate last year. The reason I was reading things out is that I wrote a blog after the debate saying the cost had gone up £10 billion in five years. That was the NAO's finding last year. It seems staggering that a year on we are in a "Groundhog Day" situation, whereby the Chair is saying, "Look at this big bill," and we are saying we still do not have data to identify the outlier hospitals that are contributing most to that and what lessons there are.

Sharon White: That is a really important point but I would not be quite so pessimistic. When we have the conversation with the Department of Health, we obviously look at mortality rates, child death rates, a whole range of performance data. We have that clearly alongside the information that the WGA has given us on clinical negligence. All that helps us paint a picture of what is happening with the NHS and the Nicholson challenge. So far, reasonably positively, it seems that, despite all the costs that have been taken out, principally through pay and a little bit of rationing, those key performance metrics are holding up. That is an area where we are really keen to see whether there are early warning signs.

Q50 Chair: I have looked at this a bit. I want to bring in Jackie and Ian on this issue and then go to Meg on another. The data are there. I looked at the comparison between my own hospital and other hospitals on medical negligence. I think that was about a year ago. I had no difficulty in extracting the data and looking at our relative position, over time and relative to other hospital trusts. The data are there. You are left with the question that maybe it does not relate entirely to the right other factors. The crude data are there, and should be a start for the Department working through its accountability structures, whatever they are, to the trust to get a change so that they are better and get fewer claims. I do not accept that it is not there. I think you are being sold a pup—

Sharon White: We will look at that afterwards. One of the issues that we have had is about whether we have then got consistency with our accounting more generally within the WGA.

Q51 Jackie Doyle-Price: This debate has shown the potential power of these accounts in terms of informing public policy. It also shows that you are missing it. I just want to explore how the conversation should really be taking place between the MOJ and the Department of Health. I have been lobbying the MOJ for a long time about tighter regulation of claims management companies, and here we have cast-iron evidence that it is costing the taxpayer a lot of money. The companies typically take more than a third of the compensation that they are paying in fees, which is bad for the consumer and it is now bad for the taxpayer. How do you have that conversation?

Sharon White: I actually used to be responsible for this in a previous life, when we were discussing the legislation on litigation. I can assure you that one of the big factors for us was the impact that this was having in other parts of the public sector. When we were thinking about drawing up new legislation for the litigation framework—legal aid is an issue for some families with high levels of disability—we had the Department of Health, the Department for Education and a number of Departments in the room trying to get a better handle on the cost implications for them and on how a new litigation framework would have an impact.

Q52 Jackie Doyle-Price: It still looks very siloed. What role can the Treasury play in terms of pushing the Departments up? If you were a proper Ministry of Finance, that is what you should be doing, because you would be managing the risks as they are occurring across the various Departments.

Sharon White: I would say a couple of things. First, we were in the room, but secondly, our job is to spot the risks across Departments that an individual Department may itself not spot. The cost that transfers elsewhere is not always visible to them. That is one of the reasons for my job. You have not just individual spending teams facing Departments but people who can sit above that and see where you have these interrelationships.

Q53 Jackie Doyle-Price: But just identifying the information does not make anything happen.
Sharon White: I am probably more confident than you and other members of the Committee that the legislation does matter.
Amyas Morse: Just to enlighten that conversation a bit, given that you are in the room and it is an opportunity for anyone to see that a Department is managing down a cost—let us say in this case it is the Department of Health—and you were not happy with the rate of progress, would you link that to your discussion about agreeing their budgets? Would you say, "We are making an assumption that you will take down this cost by x this year. If you don't, we expect it to come out of your numbers. We are not going to agree them unless we see that reflected"? Is that the sort of conversation that is happening? I am only saying it for the benefit of the Committee.
Sharon White: The NHS is slightly different because it is a protected Department, so we are not, in a sense, taking cash out. We are saying that if you have £20 billion efficiency savings to make, we have identified a pot here that can contribute to this without damaging services. Indeed, if it means that you are raising the level of some of your bad-performing hospitals, it is improving the service. The Ministry of Justice, which is an unprotected Department and which is expecting to face the same rate of reduction for 2015–16 that it faced in this current spending round, will have to take a very hard look at all its support to the legal profession. One of the issues that we have is whether the Treasury can incentivise—some people talk about financial incentives, but I am a bit more sceptical—these trades between Departments.
Chair: That is an interesting one.

Q54 Ian Swales: It is, because what we are really talking about here is these accounts being an enabler for joined-up thinking, so that the trade-offs can take place. If HMRC needs more money to address the tax gap, there is a mechanism to say so. You then have things across Departments, such as debt collection. That is what we have been talking about—if you have the overview, you do not get false economies by trying to save money in one place that costs you more in another. To finish this conversation, can you talk to us a little about what organisational support there is for this activity? I do not know whether Karen needs to come in, but in other words, what sort of management accounting effort do you have in the centre looking at these kinds of questions?
Sharon White: You will know ERG—the Efficiency and Reform Group. Ian Watmore, its previous head, and I gave evidence several months ago. The power of having ERG is that we have got much, much more resource at the centre, working with the Treasury to have these conversations—there is Amyas's challenge as well as support—on issues around debt collection, and on fraud and error we have a joint ERG and Treasury work force, which is working very well with HMRC and DWP. Organisationally, we are much stronger than we were even a year or 18 months ago, because we have more expertise to look at these horizontal issues.

Q55 Ian Swales: Specifically on what we have just been talking about, are there people looking at the interface between DCLG and the NHS on issues such as care, public health and the question of negligence? Do you have accountants actually looking at the numbers?
Sharon White: May I just say that when I talked a bit before about organisational structure before I used the unfortunate term "socialising." One of the things we are doing is creating a pool of account experts who can zoom in on our different teams and make these joins. One of the issues we are very focused on at the moment is the health and social care interface. It is partly because of the work that Andrew Dilnot has been doing that the NHS has already contributed about £1 billion or £1.5 billion into local government. You have health and wellbeing boards. There are a number of structural policy and patient reasons for the join taking place on the ground. We are trying to replicate that in our structures.

Q56 Chair: I want to move on to Meg but on that cross-departmental thing, we have been told that Bob Kerslake chairs a presumably interdepartmental working party looking at cross-departmental saving, or the impact of one Department on others. How does that fit in with your structure—is that just a parallel structure?
Sharon White: We work very closely. Bob Kerslake chairs a subset of permanent secretaries, which is looking at public service reform, and I and one of my public services directors attend. That is an important part of the conversation.

Q57 Meg Hillier: I want to talk mostly about schools, but I would just like to go back to the global figures. The total staff costs rose between sets of accounts, and staff numbers have dropped by 0.2 million. That was just the beginning of the staff reduction programme, because we are of course looking back a bit. Are your plans to manage staff costs on track, given that there was a £13 billion rise for a 0.2 million reduction in staff?
Sir Nicholas Macpherson: I think that they are reasonably on track. Those numbers will include the cost of redundancies.

Q58 Meg Hillier: It seems quite a big figure for redundancies.
Sir Nicholas Macpherson: There was some of that going on. There was the way in which Departments and programmes went into the pay freeze, and there still parts of the public sector that, despite the pay freeze, get annual increments, so pay can go up for those groups by anything up to 3% a year.
Karen Sanderson: May I just say as well that salaries and wages were actually fairly flat between the two

years? The big increase was in the pension charge, which is an actuarial determined number. Salaries and wages only went up by £0.6 billion between the two years.

Q59 Meg Hillier: That brings me on to a bigger concern. I am not sure how much overview you get of the staff who leave, take redundancy, and then give the recruitment agencies down Victoria street good business by coming back as short-term consultants, interims and short-term contracts, but it is fairly common. I might even say that it is rife—a number of us are certainly picking up examples. Do you feel like you have got a grip on that aspect of Departments dodging the bullet?
Sir Nicholas Macpherson: I see the very detailed figures in the Treasury.

Q60 Meg Hillier: To be fair, people are not likely to come back to the Treasury if they have gone. They will have gone to a much better paid job in the first place, probably. Whereas if you are in a number of other Departments, coming back on quite a good interim package for a few months is quite tempting.
Sir Nicholas Macpherson: There are quite a few controls in the system designed to discourage people.

Q61 Meg Hillier: It does not prevent it.
Sir Nicholas Macpherson: They would count as consultancy. There are big controls on that.
Sharon White: We are very alive to the issue, particularly as part of the big NHS changes. The issue that we have been really focused on has been people leaving PCTs on very big packages and then reappearing in Public Health UK or—
Chair: They are.
Stephen Barclay: They are.
Sharon White: You can never prevent all of this, but the thing we have been tracking very closely has been the redundancy payments. I don't know whether you have seen the numbers. The redundancy payments have come in much lower than we feared. We are worried about the cost but also about the churn. You are losing institutional memory in one bit of the country and it is reappearing somewhere else. The other point on the salary and costs side that I would focus on is what has happened with public sector employment. We have more recent data through the ONS. Both for central Government and local authorities—local authorities even more so—there has been this big front-loading of staff headcount reductions. That looks as though it has been properly sustained through.

Q62 Meg Hillier: On schools, one of the big concerns reading through this—we picked this up last time in relation to the number of schools, particularly academies because they are slightly dependent—is about the quality of information. Paragraph 7.6 refers to the qualification that the Comptroller and Auditor General put in over the completeness and valuation of school assets within the whole of Government accounts. Generally, there is the issue of the poor data supplied by academies. They were not even sanctioned for it. If you add it up, there is about £30 billion missing out of the whole of Government accounts. That is quite a lot of services for my constituents.
Chair: Are you going to sort this? Is that what you said at the beginning? We had a session with the DFE and the agency, whatever it is called, on academies recently. It was far from clear to me that they had any feeling of accountability and responsibility for knowing what on earth was being spent.

Q63 Meg Hillier: We keep hearing that the Department does not take responsibility. I know that £30 billion is a lot to my constituents and to me, but for you, I guess it is Smarties. Perhaps that is a bit flippant.
Sharon White: Oh my goodness, no.
Meg Hillier: I am glad to hear that. It is important money. It is supposed to be governing bodies and parents keeping an eye on it, but sometimes they cannot because it may be that it is a group of academies and the actual accounts for that one school are not showing up very clearly. Who is charge of where the spending goes?
Sharon White: We have been working very hard on this. Karen can talk a bit more in detail about some of the improvements—there's more to do—we have been making in terms of data quality and coverage. One of the things I was keen to improve was the relationship. Peter Lauener, whom you may have seen, has agreed to sit on the advisory board for the WGA. Having him sitting alongside and working through the improvements for the next year felt very important.

Q64 Meg Hillier: May I just chip in? Karen Sanderson, you talked about good will and good relationships with people and that is how you get information. Is Peter Lauener there on the basis of good will, or have you got some real grip over him and will he have some real grip over the academies, because we have not had that from him when he has been in front of us?
Karen Sanderson: We have been doing a lot of work with the Education Funding Agency to put in place a proper process around getting the data—
Chair: This is woolly. I am going to interrupt, which is the first time I have done so. It is woolly. They've got to be told they've got to give you the data. Full stop.

Q65 Meg Hillier: Have you sanctioned any of the academies for not providing proper data?
Karen Sanderson: For 2010–11, we agreed that not all academies had to give us data as part of the process of getting them on board. For 2011–12, we have not given them any exemptions.
Chair: So they've all got to give you data.

Q66 Meg Hillier: What are you going to do if they don't?
Karen Sanderson: We have not got the data from them yet.

Q67 Meg Hillier: But if they don't, what is their stick?

Karen Sanderson: We will go back to the Education Funding Agency and ask them what they are going to be doing about it.

Q68 Chair: This is a joint effort, is it?
Sir Nicholas Macpherson: I think this is very important.
Chair: Hear, hear. It is at the taxpayers' account.
Sir Nicholas Macpherson: This is taxpayers' money. It is going to institutions and they need to account for it. They all are required to appoint an accounting officer. I think we need to keep up the pressure. Admittedly, in some respects some of these things are policy decisions, but I think as accounting officers we owe it to the taxpayer to account for the money, so we will keep up the pressure.
I think also it is important that the National Audit Office keeps up the pressure, because what I would like from the audit perspective is to see a bit of random checking of "Is the system working?" We have had this discussion about system accountability. I think the Treasury, the National Audit Office and, indeed, the PAC need to work together on this. The problem arises because these are new inventions; because in year 1, they were basically given a bye on this, it is going to take time for it to feed through; but we must stick at it.
Amyas Morse: First of all, I quite agree with that, and, by the way, our strategy, which you have outlined to the Chair, and others have said, is exactly that—to do some dives into institutions, to see. I just think it is fair to warn—and I say this only from talking, as I know you do too, to the Department for Education: the rate of growth in this population is very, very fast—much faster than it was. So what we are going to need to do to find a way of keeping track of that: I don't think it is going to be very easy to button everything down very tightly while the rate of population growth is so steep—and it is going at a very huge volume rate at the moment.
I will simply comment that we will have to find some way of handling academies that are transitioning into the system during the year. I am not expecting that we will get everything from all of them. I think if we are sensible about that, what will happen is: the ones who are in, they have no excuse not to provide it, and we can be very tough about that. The ones who are coming in, we may need to do some transition programme on them. I am just preparing you for that. I think we should keep looking at it, but you are going to hear a lot about it as we go on.
Sir Nicholas Macpherson: A good example, just to bring out Amyas's point: at 31 March 2011—i.e. the point at which these accounts came to an end—there were 470 academies; at September 2012 there were 2,309 academies. That's a policy decision. I am an official who just has to deal with the consequences of that.

Q69 Meg Hillier: Is it a policy decision or an accounting decision not to release information about the capital spend on new-build schools?
Sir Nicholas Macpherson: Sharon, do you know? I don't know the answer.
Sharon White: I don't know the answer.

Q70 Chair: What we need, if we are to follow the taxpayer's pound, is to be able to compare how academies do against each other, whatever they are—academies or free schools—for every pound invested. What we are not getting, and what we will keep demanding, is that information on a school-by school basis—you are getting it on a trust-by-trust—basis. That doesn't disaggregate, as you know, in an effective manner.
Actually, if you look at the evidence—and I was re-looking at the evidence that was given to us—everybody says there is going to be a growth in these sort of bodies running a series of these schools. I don't know what they are going to call them; I would have called them local authorities, but they are probably called trusts. You have got to be able to disaggregate underneath that to be able to follow the taxpayers' pound. As I understand it, there is nothing in the regulatory framework that insists that that information is given.
Sharon White: An interesting point, which partly relates to Amyas's role, is that the academies are going to be part of the DFE's annual accounts for the first time in a year's time.

Q71 Chair: They don't see a responsibility for doing that.
Sharon White: They can't not. We will obviously keep up the pressure from our end, but we also have the NAO followed by the PAC continuing to ask these questions. From the Treasury's point of view, we are interested in unit cost, but we are obviously also interested in performance, and we have now got some quite—

Q72 Chair: But you cannot get performance until you have unit cost.
Sharon White: We've got to have both.

Q73 Meg Hillier: Chair, may I go back to the point about capital spend? It is very challenging. If any public money is spent, we would expect to be able to follow the public pound to see whether they are getting good value for money. There will be a few things at the edges about confidentiality because of the commercial nature of a decision, but when you are told by your local academy or free school, as I was, "No, we can't provide any information to you," and when you are told by the Secretary of State, "No, we can't provide any information to you till the day it opens," you have no way of keeping track. It is not that I am trying to catch anyone out. I want to know how taxpayers' money is being spent, and perhaps compare that with examples in other areas of the country, or with academies that have already established themselves in my constituency. We are not expecting that any of this will be cheap, but we need to know. Is not revealing that information a policy or an accounting decision? We are not hearing from the Department for Education either, so we have no way of following that pound.
Sharon White: I think we will provide you with a note on that, because I simply do not— It is clearly not a policy decision that has emanated from the

Treasury to keep school-by-school data private, but we will get back to you.

Meg Hillier: We have to be really clear that it is public money and that there is an interest for us all to know how that money is spent, because there could be local jobs created and all sorts of wider economic benefits if schools are going to be built. I just do not understand the need for secrecy. We hear from every accounting officer who comes in front of us about transparency of data and so on, and then we have this brick wall. Once again, it is around the academy or free school programmes. Most of my schools are academies. That is not a particular objection, but I just want to know.

Chair: Okay.

Q74 Meg Hillier: On a wider point, will this same problem arise with all these new health bodies, because we are going to see myriad different bodies set up? There are transitional arrangements first of all, and then what? Will we have information? Are you demanding that the Department of Health provides that? Does it have the right to demand that of those bodies?

Sharon White: With the way in which the legislation has been set up, the NHS Commissioning Board has a lot of autonomy.

Q75 Chair: Trust by trust.

Sharon White: Exactly. There will be data trust by trust.

Q76 Chair: But you will get it.

May I move us on to another issue: the money owing to Government? The WGA says that there is £19 billion that is write-offable. I do not understand; this is accounting, I am told. If you look at tax, you have written off about £5 billion, but there is £10 billion that is write-offable—my figures are probably a little bit wrong. Can I stick to the £19 billion as a starter? That is about 15% of total income. A number of us here were involved in local authorities. When I was a local authority leader, I would have expected to get about 98% of my income in. Do you agree with that?

Guto Bebb: Yes.

Chair: You agree with that. I was always pushing it up. Here we are talking about 85% of income coming in. I do not understand how the people you are collecting from are really that different. I can see the scale of this figure, but they are not different from the sorts of people we were collecting from when we were in local government. We would have gone ballistic if it had gone much below 98%—

Guto Bebb: You are making an argument for a property tax.

Chair: No, it is not just property tax; it is housing benefit, fines and everything. You expected to get about 98% of what was due. You just push. You had to have it. Why is it so bad here?

Sharon White: You will know that part of this is about fraud and part of this is about error, but this is not an apologia. Obviously, from the Treasury's point of view, we would rather have this money in the Exchequer than out. On the conversation we had about ERG, we now have more resource and are trying to focus on debt collection in a smarter way. We are also hoping—I dread to say this to the PAC—that new systems like universal credit do at least give us an opportunity to design the systems better.

Q77 Ian Swales: Are you looking at detailed business cases for getting this money? We have had this discussion with HMRC. It says, "We have a business case and we typically get"—I remember the number—"17 times back what we have spent on resources." As a taxpayer, I would be happy if it got one and a half times back. Surely the same argument applies. If, as the Chair says, this amount of money is outstanding, it is worth quite a lot of resource to go out and get it. One reason, I am sure, why local authorities do better is because they have people on the ground knocking on doors and tracing people. Is it because we do not do that?

Sharon White: There are a couple of things. Partly, as you say, HMRC or DWP will have a business case to recover money, which the Treasury has been pretty sympathetic to, particularly with HMRC. You will have noticed we top-sliced Departments' budgets in the last two years of the SR. We excluded HMRC precisely for this reason. The other thing that we have been doing is going along with the WGA, particularly to the DWP—and also the MOJ, because to be frank there is a lot money in Her Majesty's courts system caught up with non-payment of fines, and very similar people—and we have been saying, "About that sum of money that you think is uncollectable and written off, actually going after it is your way of saving some staff."

Q78 Ian Swales: We do not get the warm feeling that these discussions are taking place on a regular basis.

Sharon White: To be frank, I do not think there is enough of this, because there has been a mentality that that is dead money. Increasingly, as Departments have seen that the period of tight budgets is not just four, five, six or seven years, this is much more on the agenda. It is more firmly embedded within HMRC than it is within DWP and MOJ.

Q79 Chair: Are there sanctions or incentives? Is there a discussion that goes on about either sanctions or incentives?

Sharon White: Both. The other thing, as you know, is that there has been an ongoing issue about whether we centralise debt collection. I think there were pluses and minuses. It is less so with HMRC, but broadly there are people owing tax credits and people who are fraudulent in the benefits system, and there is the non-payment of fines. Fines and benefits are closely related, because there is a £5 a week deduction from people's benefits. We are trying to see whether you can look at this starting with the individual, rather than with a departmental lens.

Sir Nicholas Macpherson: Coming back to HMRC, as far as tax collection is concerned, its performance is possibly even as good as Islington's when you were in charge of it, Chair. It collects 99% of the tax that is due. Last year, it wrote off only £4.2 billion, which was less than 1% and less than in the previous year, so it is at least making some progress.

Q80 Chair: It has this funny accounting figure, though—the amount that it considers is irrecoverable.
Sir Nicholas Macpherson: Is that the remitting?
Karen Sanderson: There is a two-stage process. You take a view about what you think you might not collect, and that is what you create a provision for, but that does not mean to say that you are not going to chase it and try to collect it. You have only given up on it when you actually write it off, and that is what the £5 billion is.

Q81 Chair: May we just deal with two other issues and then I want to go to the definition and why you leave some things out. The other issue is PFI. You said at the beginning, Nick, that people looking at WGA—and this is in our comments last year—think that there is a point about PFI long-term liabilities. I wish that I was as optimistic as you said that you were. I know that this is 2010–11, but the PFI assets are £39.4 billion and the present value of future obligations is £144.6 billion. The interest payment—just the interest payment—is equivalent to the value of the assets.
There is no evidence. We know that the Government have changed the scheme a little, but basically PFI mark II—perhaps we are on mark III or mark IV—is not that different from previous PFIs, so you are going to see the same pattern over time. Again, you sit there thinking, "Why on earth aren't they learning about how decisions today are a terrible burden on future generations, because the money is not in the current budget?"
Sharon White: May I say a couple of things, and Nick might have some comments, too?
First, we want a lot more transparency around off-balance-sheet liabilities than obviously we have with the national accounts, because of the differences in the accounting treatments. The Chancellor has announced that he wants to have a so-called control total that sets out very transparently what the PFI liabilities are, even if we cannot fully embed them into the national accounts, which means that we will have up-to-date data. That decision has come out of your Committee's scrutiny of the WGA last year. We have to decide by the Budget how we are going to make that work, but we will have published clear and timely information on PFI liabilities, rather than information that is 18 or 15 months out of date.
In a sense, the real policy question is about PF II, which is a great acronym. All accounting officers with tight budgets are looking very hard at the value of PFI, partly based on the work of this Committee and the NAO, and partly based on their own experiences. We are having a lot of discussions about buying out PFI contracts in the NHS to provide better value, and I think we will see the Government take a very hard-headed look at PFI in the new version, even with a greater equity stake.

Q82 Ian Swales: You have answered one question. The joke in the press a few weeks ago was that the real work on PFI in the Treasury was looking for a new name, and you have now said that it is PF II.
Sharon White: I should tell you some of the ones that were rejected, including PPI.

Q83 Ian Swales: But seriously, I would have thought that one of the key things about the whole of Government accounts is that, if looked at properly, it gives the lie to a whole load of nonsense that has been talked about PFI over the past five to 10 years. At the very basic level, we know we have liabilities, whether or not we consolidate them. Frankly, I have a lot of trouble with the accounting principle that we do not do so. Particularly if you remove the service element and just talk about financing, to me that is as clear a consolidation item as you can think of, but the whole of Government accounts will then flag up very clearly the massive interest costs against the alternatives that the Government have always had. What do you say to that? Will it be so transparent that that will be clear, or are we going to see another round of hedge and fudge to try to justify a policy that seems not to go away?
Sharon White: As you know from my previous time before the Committee, I do not think the Government are saying that the new version of PFI ought to take precedence in Departments' thinking about capital projects. It is there as one of a number of financing instruments. Even existing PFI, as you know, is in some difficulty because of the issues of raising debt, which is why the guarantees have come in. My aim, when we are discussing internally how we should be recording in this new control framework our liabilities relating to the private finance initiative, is that this has to be absolutely transparent and clear, otherwise there would be no point.

Q84 Ian Swales: Will the new scheme unbundle the three aspects of construction and associated risk, financing and the ongoing provision of services? Will it be so transparent that we will see that? We know that that is what the market does. Once you do a PFI scheme, the market does the unbundling, and the people who take the financing part get very rich very quickly, because the capital value doubles overnight when you have a guaranteed flow of Government money against a particular amount of capital—it acts like a bond. We have talked to some very rich people sitting in your seats who have benefited from that, so will it be so transparent that the absurdity will be clear to people?
Sharon White: The aim is for it to be transparent. We are still talking through the exact details and the mock-up with our Ministers.

Q85 Ian Swales: Will this new infrastructure guarantee scheme help? As I understand it, having talked to Mr Segars in some detail, the Treasury is effectively becoming a bank by giving providers finance at Government rate that is being lent out at a higher rate. Do you think we are going to be doing more of that? Is that part of the answer?
Sharon White: We are definitely expanding Infrastructure UK which, as you know, has provided advice on—

Q86 Chair: Although there was a critical Report from the NAO on it last year.
Sharon White: We all get critical reports.

As the Government said, it is the intention to try to shore up both the housing market and some critical infrastructure projects, beginning with Crossrail, where we are in danger of not being able to put forward the rolling stock without some sort of Government back-up.
Chair: Okay. I have Nick, very quickly, and then Guto and Austin, and then I think we will wrap up on the definition—the scope—of the thing.

Q87 Nick Smith: On rich people, but not on PFI. I have just been looking at note 6 on social security benefits, which is on page 126. I have been looking at all the different pension credits, tax credits and so on that go out to the public, but I cannot see the cost of tax allowances for pensions of high earners and their social security benefits. I wonder why they are not there or thereabouts. Have you got that number—how much we pay out for pension credits for high earners?
Sir Nicholas Macpherson: I can certainly give you the information, although I don't have it on me. Tax allowances, as I understand it—I am deferring to the greatest living expert in these matters—would not score in the whole of Government accounts.

Q88 Nick Smith: Oh, wouldn't they?
Sir Nicholas Macpherson: No. That is just how the accounting system works.

Q89 Nick Smith: Okay. But could you let us know what that number is, please?
Sir Nicholas Macpherson: I certainly can.

Q90 Guto Bebb: I just want to come on to the issue of the nuclear decommissioning provisions, which have gone up in cost by about £15 billion or £16 billion. Having listened to the whole discussion this afternoon, the question is this: to what extent can these whole of Government accounts be useful in terms of policy planning? To what extent would that figure I have just given influence any decision made in relation to future investments in the nuclear sector?
Sir Nicholas Macpherson: The Treasury clearly missed a trick when these nuclear power stations were built, some of them going back to the 1950s—

Q91 Chair: We all missed a trick. It is a shocking, shocking story.
Sir Nicholas Macpherson: Exactly. I think that the critical thing for us is, as far as it is possible, to factor these costs into the future, because I don't see why the taxpayer should be lumbered with an additional £60 billion cost down the track. Now the challenge is to incorporate those calculations into the emerging deals, which will be done in the coming period.
Sharon White: That is exactly the conversation that we are having at the moment. As you know, there are ongoing discussions with EDF about the possibility of building a new nuclear power station without public subsidy, and something that is clearly being built into any negotiation or contracting is the cost of the decommissioning that might be associated.

Q92 Chair: Let me just say this to you, because we are about to bring out our report on Sellafield. To those of us who went up there, what was absolutely clear is that everyone is petrified—quite rightly—about the nuclear waste issue, so it seems a never-ending flow. They don't really have to justify their extra money that they spend on it; it just seems to flow upwards. If you took it forward from there, I think that we were more than £60 billion when we looked at it when we were up there, which is just over a month or two ago. Every project, or almost every major project bar two or three, is over time, over budget and increasing. And with the controls, nothing seems to be learnt from this.
Amyas Morse: Did you have to convince the regulator about all this?
Chair: Well, the regulator wasn't very effective, was he?
Amyas Morse: None the less, it is not an out-of-control process, is it? We are not saying that.

Q93 Ian Swales: Financially, there is nothing pressing down on costs particularly, is there? So that is the point.
Amyas Morse: Okay.

Q94 Jackie Doyle-Price: Sir Nicholas, you just said that the Treasury had missed a trick on this. From your perspective, do these accounts make it easier for you to identify these risks sooner rather than later?
Sir Nicholas Macpherson: Without doubt. Faced with whichever note to the accounts it is, it would be irresponsible to ignore decommissioning costs. Quite clearly, in the 1950s no one had a clue and there was no framework then whereby the Government looked at long-term costs. The Treasury will do its bit, but, in a sense, these are decisions made by Government, although admittedly advised by officials. Collectively, we all have an interest, whether that is decisions taken by Parliament or the implementation by us, to get these things right.

Q95 Jackie Doyle-Price: What you are saying again, and what we were discussing earlier, is that you present the information, but it is for the rest of the Government to do something about it. All we are doing is getting more information and more transparency, but at this stage we are not getting better decision making.
Sir Nicholas Macpherson: I am all for transparency and dead in favour of it. We need information out there, but there is an awful lot of transparency where it is so difficult to assemble the data and make sense of it that it is a way of opting out of responsibility, in a sense. What is valuable about the whole of Government accounts is the way it brings it together and quantifies it. I know, however, that there are challenges around reducing the number of qualifications and so on. Incidentally, every other country has the same problem. I saw my opposite number in France last week, and we had a long conversation about just how difficult it was to do the whole of Government accounts. He actually has 40,000 accountants in his ministry—40,000—and his accounts are still qualified.
Sharon White: He has a rather bigger job.

Q96 Ian Swales: How many do you have?
Sir Nicholas Macpherson: We have six in the Treasury who specialise in this.

Q97 Guto Bebb: On the way that figures are factored in, to what extent do the figures reflect the significant increase in provision over the past five years? It seems like an ongoing and moving goalpost to try to factor into your calculations.
Sir Nicholas Macpherson: Also, we are homing in on the best techniques for measuring some of the provisions. One reason why the nuclear decommissioning went up this year was down to a change in methodology. I do not want to see us changing the methodology every year, but the focus on the issue is making people rather more serious about carrying out the calculations.
Sharon White: There are practical implications. When we negotiate DECC's budget with them for 2015–16, the only issue, because it is so dominant, that we will be discussing is their nuclear decommissioning. As I say, this is at the front of the ongoing discussions, which we and David Pitchford are involved in, for the build of the new nuclear power stations.
Chair: David Pitchford is not looking at this stuff. I hear that he is looking at future ones, but one of our feelings was that, if their projects are all over time and over budget, he ought to be looking at these as well.

Q98 Ian Swales: That comes back to incentives. If we are talking about who has a financial incentive for minimising that number, we are worried that there may be no one. Connecting it to DECC's current availability of money might just be one of those incentives that you could use.
Sharon White: You top slice some efficiency out of it.

Q99 Austin Mitchell: You have drawn the boundaries of the public sector a bit narrowly, possibly because you are ideologically ashamed of it, but why are the publicly owned banks not exploited? To fit in with international financial reporting practice, you should have included them. You are going to be stuck with them—I hope—for a long time, unless you have a fire sale, so why are they not included?
Sir Nicholas Macpherson: Because we still take the view that we will hold them for a relatively short period of time. As a taxpayer and therefore owner of these great institutions, you will be relieved to hear that the share price has risen quite a lot since the start of the year. That does not mean that it will continue, but it may mean that we are slightly nearer a sale than I would have thought a few months ago when I appeared before this Committee.
The real reason, however, is that to consolidate them would be a very big exercise, partly because banking accounting practices are quite different from public sector accounting practices. We looked at this and it would cost us hundreds of thousands of pounds, and we took the view that this should not be a priority. Having said that, you will be glad to hear that the Bank of England has finally been consolidated into the accounts this time around—a mere 65 years after nationalisation. Our plan is to consolidate UK Asset Resolution, namely the bad banks of Northern Rock and Bradford & Bingley, in time for 2013–14. We recognise that we are going to be handling those bad banks for a long time. I hope that provides you with some reassurance.

Q100 Austin Mitchell: Those arguments don't apply to Network Rail.
Sir Nicholas Macpherson: Network Rail is a long story—
Austin Mitchell: Don't tell it now for heaven's sake.
Sir Nicholas Macpherson: The decision was made to try to align the whole of Government accounts with national accounts. The CAG does not agree with that decision. There is a policy element to this. Successive Governments—

Q101 Chair: Want to keep it off the books.
Sir Nicholas Macpherson: Successive Governments don't seem to have been in any great hurry to instruct us to incorporate Network Rail.
Amyas Morse: I don't disagree with the decision; I just don't think it is in line with standard accounting practice.

Q102 Chair: There is something I don't understand. You define it yourself. You say it exercises functions of a public nature—yes—and it is substantially funded from public money—yes. Then you don't put it in. Unless you are telling us that it is a political decision.
Sharon White: The ONS—and we have great trust in the ONS—define it as private non-finance.
Chair: The ONS takes account of these factors. You are different; you are not asked to take account. You are required to include entities that exercise functions of a public nature substantially funded by public money. You are in a different place from ONS. If you are telling us it is a political decision, we might shut up about it. If it is everything else, we will bang on about it.

Q103 Austin Mitchell: What about royal palaces and the Duchy of Cornwall? Are they not national assets?
Sir Nicholas Macpherson: That is a very good question.
Sharon White: How do you price them?
Sir Nicholas Macpherson: The Duchy of Cornwall for these purposes counts as private.

Q104 Chair: I don't think so. I think I used to have responsibility. Can we discover that?
Sir Nicholas Macpherson: We may well have had some responsibility but there are certain bodies, rather like the NAO itself, that live in a strange twilight zone.
Sharon White: Long may it continue.
Ian Swales: What about the east coast main line?
Amyas Morse: That would not be a fair way to describe the Treasury, I appreciate that.

Q105 Austin Mitchell: I didn't want to stir anything, of course. I have one last question. I see more accounts are being qualified. Does that indicate you are trying to move towards European practice and eventually get them all qualified?

Sir Nicholas Macpherson: We are committed to reducing qualification. I think qualification of accounts is a serious indicator. If you are the body whose accounts are qualified you should take that very seriously. Indeed, the PAC takes it seriously, and long may that continue. It is one of the few ways that you can get a bit of leverage.
Austin Mitchell: I'm glad to hear that. Thanks.

Q106 Stephen Barclay: I have a quick follow-up to Guto's earlier point. Could you name a power station in the world that was built without public subsidy?
Sharon White: They tried in Finland. They tried and did not succeed. We would be the first.

Q107 Stephen Barclay: Does that not set warning bells in the Treasury? We might be driven to a complex financial model that is hard to predict now for the future, if one looks at the west coast main line as a precedent, if we say we are going to do something that no one else in the world has achieved.
Sharon White: It is a very difficult thing to do. Although it is not direct public subsidy, obviously the way in which the electricity market reforms work, one is indirectly channelling "subsidy" through. I won't try to argue away the complexity and challenges of doing this. That is why it has been many months in the work so far.
Stephen Barclay: It is not one for today as time is tight, but could I flag my concern—and I suspect that of the Committee from a value-for-money perspective—Sir Nicholas, as the accounting officer, in terms of the way the financing of nuclear happens?

Q108 Chair: We hope you will use your letters of direction properly.
Sharon White: I guess Stephen Lovegrove is officially accounting officer for new nuclear when he arrives in post as DECC permanent secretary in a couple of weeks.

Q109 Stephen Barclay: It is not my field of expertise, but every time I try to read into it, the complexity of what we are trying to do is the overriding factor. Complexity, if there is any lesson of two and half years on this Committee, usually drives cost.
Sir Nicholas Macpherson: Successive generations have found that Governments—I use the word in its broadest sense and am not trying to finger individual politicians or officials—have the uncanny ability to lumber future generations with costs that are not recognised at the time. In fact, it is the ideal form of deliver now, pay later. These accounts are an important step towards providing a brake against that. They are not perfect, but in a sense they protect future generations.

Q110 Stephen Barclay: That is why I flagged the matter up in this session, but I will leave it there. In terms of fraud, what is your estimate, Sir Nicholas, of fraud loss across Government as a whole?
Sir Nicholas Macpherson: Do either of you have the figure? A figure has been put in front of me, which estimates total public sector fraud, including tax fraud, at around £20 billion.

Q111 Stephen Barclay: The NAO's figure was £21.2 billion, based on a Cabinet Office forecast, but that seems at variance with the Home Office figure, which includes private sector fraud. The Home Office figure in 2011 for fraud losses against the UK was £38 billion, and in 2012 it jumped to £73 billion. Have you discussed with the Home Office why its estimate had moved so far, and to what extent there are differences across government?
Sir Nicholas Macpherson: I have not personally discussed that with the Home Office. My only point at this stage is that its estimate may be more general. If it was going to feed straight through into these accounts, I would be extremely worried.

Q112 Stephen Barclay: It is more general, and includes more. What struck me was the extent to which it moved in a year from £38 billion to £73 billion, and that is the Home Office's figure, not mine.
Sharon White: I will take that back with me.

Q113 Stephen Barclay: The point I wanted to flag up is that, on the whole, fraudulent clients are not the ones who are creating a demand for Government action. If the estimates are as vague as they seem to me, and they are moving as they are, how do we get the right resource allocation and focus? Again, I think the whole of Government accounts might be an area for next year's discussion, and some work on fraud specifically might be useful.
Sir Nicholas Macpherson: We will take that away with us.

Q114 Guto Bebb: A final question on the usefulness of these accounts. There is no distinction between spending in different regions and different nations in the UK. Obviously, it is all part of Government spending, and it would be useful if those figures were easily accessible. Are there any plans to change that?
Sir Nicholas Macpherson: We do produce something called PESA, which is public expenditure statistical analysis, which is done off the back of our own management information and ONS data. I do not rule out doing the same with whole of Government accounts, but first I would like to make more progress with reducing the number of qualifications and improving the data we have before we spread our wings even more widely.
Chair: Two points, and then I think we are there. It seems that student loans are an asset of £30 billion, but I have no idea what the value is. You have pulled that figure down, haven't you, to have regard to people not paying? I think there is work to be done on the complex way in which you present some of these issues. I would like to be able to pull these figures out and have a quick understanding of them, but that is difficult.

Q115 Stephen Barclay: Just on that, BIS has returned £1 billion to the Treasury, so it is forecast that it will have £1 billion more.

Sharon White: That is partly to do with forecasting issues in the Department.
Stephen Barclay: But it is not an insignificant amount.

Q116 Chair: The £30 billion, which is an asset, is money you really think you will get back.
Sharon White: It is not actually, no. One of the things that we are exploring is whether the sale of the student loans was partial or not—

Q117 Chair: I know. You have been exploring that for two and a half years—June 2010.
Sharon White: And we are continuing to explore.
Chair: What has been given out in loans? You have written it down as an asset of £30 billion, but what is it? *[Interruption.]* Can I make that a point about better presentation of data? Because I think a lot of the figures are still pretty impenetrable.
I am just going to make this general point. Sir Nicholas said a number of times that you want to deal with some of the qualifications. You will only deal with those qualifications if issues of definition are resolved. I leave you with that thought. It is no use coming back to say, "We have got a different definition"—these have to be resolved. In an odd way, I do care, and Network Rail should be on the books, but on the whole we want to see a resolution to these issues.
The other thing to say to you is that we think that this is a hugely important document. I think you and I share that, but we are not going to get off your back, and we will say, "We expect you to drive changes from the data and the intelligence that this produces." Next year, when we will look at our recommendations more quickly, we will expect to see better progress on them.

Q118 Meg Hillier: We talked a bit about capital assets. One of the pledges made—I think the Prime Minister made it, indeed—was that 300 empty Government properties would be let to small and medium-sized enterprises, but only 24 have been let so far. I wonder if you have any purview over that progress, because these assets are sitting there costing the taxpayer money and not being used for what the Prime Minister said they should be used for.
Sharon White: That is a big focus of the Government Property Unit. It is the ERG bit—
Meg Hillier: ERG?
Sharon White: The Efficiency and Reform Group, run out of the Cabinet Office. We try to divide up our roles and responsibilities, but I will take it back.

Q119 Meg Hillier: Just to be clear, the Government property office is in the Treasury—
Sharon White: The Government Property Unit is in the Cabinet Office.
Sir Nicholas Macpherson: In the Cabinet Office.
Chair: These things you are going to come back to us on, we would like the notes as quickly as possible. Jackie has the very final point.

Q120 Jackie Doyle-Price: You referred to the fact that local authorities have been building up their reserves, in spite of the challenging financial climate. From your perspective, how has that happened? My local authority would tell me that the amount that it needed in reserves is a fairly certain figure, but the story you seem to have given is that the reserves are going up more than they should be.
Sharon White: I am not sure more than they should be, but more than we expected. I think you are right, it is a variegated story by local authority. So for some, they are building a reserve because they have got some big transport or infrastructure project to come; others are building more reserve than they need for their planned capital expenditure. Certainly the intelligence that we get through the Local Government Association and through our contacts with local authorities is that they are expecting the Treasury to come back for more.
Chair: Thank you very much indeed.

Written evidence

Written evidence from HM Treasury

CAPITAL SPEND ON NEW SCHOOLS

Meg Hillier MP asked about decisions on whether to release information about the capital spend on new-build schools (Q69 and Q73). It is a policy decision for the Department for Education (DfE) when to release details of the capital costs of individual new schools. The department recognises the importance of transparency on the cost of new schools. However, the value of specific projects is commercially sensitive—releasing information on proposed costs may prejudice negotiations on the price of works for that school, or future negotiations on other similar projects. DfE need to weigh up the potential impact on the cost of future projects when deciding when to release this information.

In the case of Free Schools, where each project is generally unique and has specific requirements, DfE release the details of capital funding for each school when renovation works and costs are finalised, and therefore the cost of the project is no longer commercially sensitive. Information on finalised costs can be accessed on DfE's website at:
http://www.education.gov.uk/schools/leadership/typesofschools/freeschools/b0066077/open-free-schools.

TAX ALLOWANCES

Nick Smith MP asked how much is paid out in pension tax relief for high earners (Q87).

The gross cost of providing pensions tax relief was an estimated £32.9 billion in 2010–11, as set out in a table produced by HMRC, which is available at: http://www.hmrc.gov.uk/statistics/pension-stats/pen6.pdf. This cost is broken down by income group in the response to a Parliamentary Question on the subject asked by Debbie Abrahams MP, which is annexed to this letter.

STUDENT LOANS

Both you and Stephen Barclay MP asked how much has been paid out in total in student loans and the value placed on those loans by the Whole of Government Accounts (Q114 to Q117).

The £30 billion figure is the carrying value of the student loan book on the Department for Business, Innovation and Skills' balance sheet in 2011–12. It is the net present value of the repayments BIS expects to receive in the future. About £40 billion of loans had been issued at that point. The difference with the £30 billion value on BIS's balance sheet reflects the subsidy inherent in the loans that means a proportion of the loans BIS issues will never be repaid. As the Committee noted, the Government is currently examining the case for selling the pre-Browne income contingent loans.

LETTING GOVERNMENT PROPERTIES TO SMALL AND MEDIUM SIZED BUSINESSES

The Government announced in January 2012 that it would examine around 300 unused spaces for their suitability for use by Small and Medium Enterprises. Since then it has been running a pilot, which has had two significant strands of work: reviewing 145 surplus government properties in 95 locations (April 2012) to identify suitable spaces; and identifying and recruiting suitable providers to manage the spaces on its behalf, including the provision of business support, using a model which will impose no additional burdens to the taxpayer.

As expected, not all of the Government's property was suitable for this initiative. During the past year some of those spaces from the original headline figure have either been handed back early to landlords or sold, reflecting the success departments had in rationalising their empty property portfolio. This has made a significant contribution to the Government's deficit reduction programme.

Of the spaces which remain, there are a variety of reasons for not being able to utilise them for incubation. Reasons for this include: being very small; poor condition; security considerations; restrictive lease terms preventing their use outside Government; and some not being available for long enough to make them viable or worthwhile for potential providers to manage.

By May officials had identified 20 suitable properties, and had engaged with and identified a number of potential providers for the initiative. Between May and July BIS ran a procurement for the management of these 20 spaces, adding 4 more at the end of June. The response to the procurement was encouraging, the number of expressions of interest, 60, exceeded expectations, and the procurement team arranged over 40 site visits to the spaces. Bearing in mind that these spaces had been previously marketed by Government without success, unsurprisingly not all of them proved attractive. Just under a third received bids, ahead of expectations.

At this point it is useful to say something about the model pursued by the Government for this initiative. Officials were careful not to be overly prescriptive about the service providers should offer or how, except for one very important proviso which is that the management of the spaces and associated business support being offered should be self-funding. This approach is a significant departure from existing norms. Except for the gifting of space, rent free and initial administration costs, there will be no other significant cost or subsidy from Government. This approach has obviously been a challenge to some of both the commercial and non-commercial players in this market, not used to this type of arrangement. However despite this, not all have been put off and BIS received bids to manage eight of the spaces from potential providers ready to meet the challenge of a self financing model.

To summarise progress to date, of the eight spaces, two properties were subsequently withdrawn pending disposal; two were considered unviable by the bidders after further consideration; and four are currently in contract negotiation. BIS and departments are at a commercially sensitive stage, concluding contract negotiations in respect of these properties and I am therefore unable to disclose more information at this stage. Subject to the successful conclusion of negotiations, the spaces will be publicised as they become available. The purpose of the pilots is to learn the best way to deliver policy, iron-out any practical difficulties, determine effectiveness and the best course of action—more will be learnt over the coming months.

I hope this additional information is helpful to you and to other members of the PAC.

Sir Nicholas Macpherson
Permanent Secretary

1 February 2013

Hansard, 6 Sep 2012 : Column 397W

Debbie Abrahams: To ask the Chancellor of the Exchequer, pursuant to the answer of 18 July 2011, Official Report, column 541W, on tax allowances pensions, what proportion of income tax relief on contributions accrues to, or is expected to accrue to, individuals with an annual income of (a) up to £19,999, (b) between £20,000 and £44,999, (c) between £45,000 and £74,999, (d) between £75,000 and £99,999, (e) between £100,000 and £149,999 and (f) over £150,000 in (i) 2010-11, (ii) 2011-12 and (iii) 2012-13. [95617]

Mr Hoban: The proportion of income tax relief on pension contributions for the given income ranges, and years, is provided in the following table:

Percentage of income tax relief on contributions

Income bands	2010-11	2011-12	2012-13
£0-£19,999	7	7	6
£20,000-£44,999	29	31	30
£45,000-£74,999	26	31	32
£75,000-£99,999	7	8	8
£100,000-£149,999	8	8	8
over £150,000	22	15	15
All	100	100	100

The effect of the reductions in the annual allowance in 2011-12 and lifetime allowance from 2012-13 are reflected in the table as they mostly relate to individuals with incomes over £150,000.

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