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The Committee of Public Accounts

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Summary

The Whole of Government Accounts (WGA) continues to be essential reading for anyone looking for a comprehensive view of the UK's public finances. HM Treasury (the Treasury) has responded to the Committee's previous recommendations and improved the clarity, quality and usefulness of the WGA. However, we continue to be concerned that the time it takes to produce means that the WGA is still not achieving its potential as a tool for making decisions about the public finances. While we welcome the Treasury's move towards using the WGA to help better manage the government's assets and liabilities, the Treasury's actions to maximise value from assets and reduce liabilities will need to be embedded in day-to-day financial management across government if they are to have a lasting impact.

There is more that could be done to improve how the WGA is used. Despite the overall aim of the WGA to enhance transparency, the Treasury doesn't fully understand who uses it, or how it is used. The WGA will be increasingly important for accountability and transparency of the public finances in the future, particularly in enabling the public to understand the longer-term impact of Brexit on the public finances. The Treasury needs to assure the public and Parliament that the WGA's disclosures on the impact of Brexit will be comprehensive and clear.

Introduction

The WGA is a unique document which provides the most complete and accurate picture available of the UK public sector finances. The WGA is a set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which brings together information on the financial performance and position of over 7,000 organisations across the UK public sector. In 2016–17, the WGA included net expenditure (total expenditure less income) of £98 billion and net liabilities (the difference between assets and liabilities) of £2.4 trillion. The Treasury published WGA 2016–17 on 28 June 2018, 15 months after the end of the financial year. The Comptroller & Auditor General again qualified his opinion on the 2016–17 accounts. The reasons for this included: the omission of some significant bodies from the accounts, including the Royal Bank of Scotland; inconsistent accounting policies across the organisations included in the WGA; qualifications owing to issues in the underlying accounts of organisations included in the WGA, including the Ministry of Defence and the academy school sector; and the impact of academy schools having a different financial year to the rest of government. The Committee has previously recommended that the Treasury: produce the WGA more quickly; make the accounts more useful and transparent; make the most of the value of government's assets; and be proactive in reducing the cost of its liabilities, such as those relating to clinical negligence.

Conclusions and recommendations

1. **The usefulness of the WGA remains limited by the time it takes to produce.** We support the Treasury's ambition to publish the WGA within nine months of the end of the financial year. However, we remain concerned that the time it takes to produce the WGA means that government is not making the most of this valuable resource as a decision-making tool. The Treasury published the WGA 2016–17 in June 2018—just 15 days faster than the previous year. The Treasury expects to publish the WGA 2017–18 in May 2019 (14 months after the end of the financial year) and says that work is currently a month ahead of schedule. The Treasury is working to reduce the amount of time it takes to produce the WGA. It plans to publish WGA 2018–19 by the end of March 2020 (12 months after the end of the financial year), and WGA 2019–20 by January 2021 (around 9 months after the end of the financial year). Meeting these plans relies on the Treasury getting the right quality information—on time—from all public bodies, including academies and local government. For WGA 2017–18, the information the Treasury has received from local authorities show that they have so far responded well to an earlier reporting deadline. The Treasury is investing in a new IT system to aid the process of bringing together the financial accounts of all the organisations included in the WGA. Despite the challenges, the Treasury asserts that it is confident it can achieve its plans to bring the timetable forward.

   Recommendation: ***Treasury should write to the Committee by March 2019 with details of its plans and timetable to publish the WGA within nine months of the financial year-end. This should include its expectations of the publication dates of future WGAs and the timing of key milestones.***

2. **The Treasury does not fully understand how the WGA is used, which means that the WGA still does not provide the public and Parliament with the information they need to understand the public finances and hold government to account.** The Treasury has made clear progress in improving the commentary in the WGA, providing better quality analysis of finances across government and explaining the main causes of year-on-year changes in the accounts. But it could do more to disseminate the WGA. The commentary included in it needs to be relevant and useful to the public and Parliament. While the Treasury is bound by financial reporting standards when producing the WGA, it has more discretion over the amount of detail it chooses to include in the notes to the accounts and its commentary in the performance report. The Treasury accepts it could say more in the commentary about some transactions and balances which are not included in the accounts (such as future taxation receipts and the future liabilities for the state pension). The Treasury says it will look at providing more detail on some areas of the accounts, including a breakdown of what it reports under Purchases of goods & services. Users also need more detailed information on government's potential exposure to future liabilities as an insurer of last resort; for example, on decommissioning fracking sites. This additional information, along with a focus on greater consistency of reporting from year-to-year, would provide greater transparency over finances in the public sector.

   Recommendation: ***The Treasury should write to the Committee by March 2019, with details of how it plans to improve and extend the accounts commentary in***

future years. This should include how it plans to encourage the wider use of the WGA and engage with the public, academics and Parliament, and how further transparency will be provided.

3. **Without additional detail in future, the WGA may not provide the comprehensive information that Parliament and the public expect on the impact of Brexit on the public finances.** The WGA is increasingly important to ensuring accountability for public spending, particularly in enabling the public and Parliament to understand the current and likely future impact of Brexit on the public finances overall. The Treasury's aim to publish WGA 2017–18 in May 2019 means that it is likely to be the first major set of accounts published after the UK's exit from the European Union (EU) in March 2019. Although any agreed financial settlement of the UK's exit from the EU will not be seen in the numbers of WGA 2017–18, the Treasury will provide detailed notes and commentary on the likely impact of Brexit. The Treasury expects it will need to report on three areas in the WGA: the amount spent preparing for exit; the financial settlement; and the replacement of EU schemes such as agricultural support. We expect these disclosures to include a comprehensive explanation of the likely impact on the public finances in the current and future years. It will also able be important for the Treasury to consider how any 'Brexit Dividends' are disclosed transparently in the WGA in future years.

Recommendation: ***The Treasury should write to the Committee by March 2019, detailing how it will present information on the impact of Brexit on the public finances in WGA 2017–18 and in future years, and ensure that the information it includes is comprehensive and easily understood.***

4. **Government is not yet making the most of its assets, and it remains to be seen whether Treasury's review of the public sector balance sheet will have a lasting impact on the public finances.** The Treasury announced in the Autumn Budget for 2017 that it was carrying out a review of government's balance sheet with the aim of maximising the return from its assets and reducing the cost of its liabilities. We welcome the move to using the WGA to help manage the government's balance sheet more effectively. But, as we have said previously, this approach will need to be embedded in departments' and the Treasury's day-to-day financial management if it is to lead to lasting benefits. Government has a long way to go to harness the benefits of public sector intangible assets such as intellectual property and maximise the return it gets from these assets. Plans for realising the potential benefits from government's property assets are ambitious and will require considerable effort and co-ordination across departments. At the same time, we remain concerned that clinical negligence liabilities have continued to rise to almost £77 billion and expect the cross-government strategy announced in the 2018 Budget to ensure the government gets a grip on these rising costs. The Treasury plans to report on its balance sheet review at the next Spending Review, expected in 2019. It has not set out yet how its management of assets and liabilities will change following its review of the balance sheet.

Recommendation: ***The Treasury should ensure that its balance sheet review has a long-term impact on the cost-effective management of government assets and liabilities. It should report to us how the benefits of the review will be monitored and reported; with the first update on progress by June 2019.***

5. **We are concerned that the Treasury's lack of a clear plan for what will replace PF2 risks the financial burden falling on the taxpayer.** In the 2018 Budget, government announced that it would no longer use PF2 for new projects, having found the model to be inflexible and overly complex. The Treasury is not planning to replace PF2 with a single preferred approach and has not confirmed whether planned projects will now be part, or fully, funded by the public purse. For example, the A303 road project was expected to use PF2 but the Treasury could not tell us how this project would now be funded. The Treasury is confident that it will be able to use other existing funding models in the place of PF2, particularly as government made little use of PF2. The Treasury will decide on which model to use on a project-by-project basis. However, we are concerned by the value for money of some of these alternative funding models, such as contracts for difference. We will expect assurance from the Treasury that these concerns have been addressed.

Recommendation: ***The Treasury should write to the Committee by March 2019, clearly outlining the range of financing structures available to fund capital expenditure in the future, and how it will appraise the cost and risk implications of these options to protect the public finances over the long-term.***

1 Progress in improving the Whole of Government Accounts

1. Based on the Whole of Government Accounts (WGA) for the year ended 31 March 2017, we took evidence from HM Treasury (the Treasury) on the improvements made to the accounts in the past year, and the Treasury's plans to resolve the issues that remain in future years.[1]

2. The WGA brings together the financial activities of more than 7,000 organisations across the public sector, including central and local government as well as public corporations such as the Bank of England. There is no more complete record of what the Government owns, owes, spends and receives. The Treasury published the 2016–17 WGA in June 2018. It is the eighth WGA to be published. In 2016–17, the WGA included net expenditure (total expenditure less income) of £98 billion: a decrease of £146 billion compared to the previous year, £115 billion of which is due to a change in the accounting assumption used to value future liabilities. Net liabilities (the difference between assets and liabilities) increased to £2.4 trillion from £2.0 trillion, mainly due to a £410 billion increase in the net public sector pension liability in 2016–17.[2] When we examined government borrowing and the 2015–16 WGA, the Committee recommended that the Treasury set out, by March 2018, its plans for producing the WGA more quickly after the year end, and for improving the disclosures as recommended by the previous Committee.[3] The Treasury agreed with the Committee's recommendations and set out its aim to publish the 2018–19 WGA by January 2020. It committed to work on the additional analysis requested by the Committee and to include in 2016–17 WGA, and beyond, more detail on national and regional breakdown of expenditure.[4]

The timeliness and completeness of the WGA

3. The Treasury published the WGA for the year ended 31 March 2017 in June 2018 – 15 months after the end of the financial year, and 15 days faster than the previous year. We asked how the Treasury planned to produce the WGA more quickly so that it is more useful. The Treasury told us it remained committed to reducing the amount of time it takes to produce the WGA and its aim is to publish it within nine months of the end of the financial year. We asked the Treasury whether it had a plan for how it would achieve this and if the plan was on track. It told us that its plan was to reduce the time it took to publish WGA by two months each year and that it was on track. The Treasury expects to publish WGA 2017–18 in May 2019 (14 months after the end of the financial year) and told us it is currently a month ahead of schedule compared with the previous year. The Treasury said it plans to publish WGA 2018–19 by the end of March 2020 (12 months after the end of the financial year), and WGA 2019–20 by January 2021 (around 9 months after the end of the financial year).[5]

1 HM Treasury, Whole of Government Accounts: year ended 31 March 2017, HC 1091, June 2018
2 HM Treasury, Whole of Government Accounts: year ended 31 March 2017, HC 1091, June 2018
3 Committee of Public Accounts, Sixteenth Report of Session 2017–19, Government Borrowing and the Whole of Government Accounts, HC 463.
4 HM Treasury, Treasury Minutes: Government responses to the Committee of Public Accounts: Session 2017–19, Cm 9596, March 2018
5 Qq 16–20

4. The Treasury told us that the two major continuing sources of delay affecting the timeliness of the WGA were the academies sector and local government. The 2016–17 WGA was the first to include the financial accounts of the academies sector as a separate entity rather than being included within the Department for Education's annual accounts. The Academy schools sector in England consolidated annual report and accounts for the year ended 31 August 2016 was not published until October 2017, and the information required to bring the academies into the WGA was not brought into the accounts until April 2018. The Treasury explained that this was the first time it had consolidated academies into the WGA in this way, and that it expects to have brought the academies into the 2017–18 WGA four months earlier, by December 2018. Regarding the delay caused by the timeliness of information from local government, the Treasury told us that it has brought forwards the timetable for receiving the information it needs from local government from September to July. For WGA 2017–18, the Treasury told us that the information returns from local government bodies show that they have so far responded well to an earlier reporting deadline. At the time of the evidence session, the Treasury said it had received audited returns from 86% of local authorities and unaudited returns from 98%. To further reduce the time the WGA takes to produce, the Treasury is investing in a new IT system to aid the process of bringing together the financial accounts of all the organisations included in the WGA. The Treasury told us that its current IT system is 'creaking' under the strain due to the scale of the WGA, but that the 2019–20 WGA would be the first produced using a different system. We noted that to bring forward publication by three months at the same time as bringing in a new IT system was highly ambitious.[6]

5. The C&AG qualified his opinion on the 2016–17 accounts, but noted that the Treasury has made some progress in improving the quality of the WGA by working to remove some of the qualifications to his audit opinion. In the 2016–17 WGA, the C&AG removed his qualification relating to adjustments to eliminate intra-group transactions and balances (a part of the process of bringing government bodies into the WGA) for the first time.[7] However, the Treasury accepted that many of the qualifications to the C&AG's audit opinion will likely continue for the foreseeable future. The WGA has a long-standing qualification because of the way that the Ministry of Defence accounts for leased assets. The Treasury told us that it hoped that this issue would be resolved through the work required to adopt a new accounting standard covering leasing which the Treasury said would come in, in two years. This means that the Treasury expects this qualification to remain for at least the next two reports.[8] The C&AG also qualified his opinion on the 2016–17 WGA as a result of a long-standing issue regarding audit evidence over land and buildings in the academy schools sector's accounts. The academies schools sector also uses a different financial year—based on the academic year—to the majority of the public sector. The Treasury told us there is limited appetite to change the year-end of the academies sector. The Treasury admitted that it was at least two years away from being able to remove this qualification from the WGA accounts. Finally, as with previous years, the Treasury intentionally excluded government's remaining stake in the Royal Bank of Scotland (RBS) from the WGA as it intends to sell this by 2023–24.[9]

6 Qq 17, 21–22, HM Treasury, Whole of Government Accounts: year ended 31 March 2017, HC 1091, June 2018
7 HM Treasury, Whole of Government Accounts: year ended 31 March 2017, HC 1091, June 2018.
8 Qq 31–37
9 Qq 28, 38–40

6. We were concerned that these limitations and the time it takes to produce the WGA and the qualifications affecting the accounts, means that government is not making the most of this valuable resource as a decision-making tool. The Treasury asserted that the WGA has improved the transparency and accountability of the public sector finances and is contributing to better fiscal policy decisions.[10] However, it also told us that the WGA is not the main tool for decision-making as it is largely backward-looking, rather than forward-looking.[11] Instead, the Treasury uses forecasts and long-term projections alongside balance sheet information (which includes the value of things government has committed to, such as public sector pensions) to get an overall picture of the public finances.[12] The Treasury said that it is now supplementing the WGA and the National Accounts with new monthly reporting and forecasting of 'public sector net financial liabilities' – a statistical measure that is broader than government's headline 'public sector net debt' measure. This measure includes financial assets which cannot as readily be converted into cash (for example, loans and shares), thereby providing a more complete view of government's balance sheet.[13] While this new reporting will provide information on the public balance sheet in a more timely way, it is much less comprehensive and less informative than the WGA. We were concerned that without a comprehensive and up-to-date view of the public sector finances, departments and the Treasury may not have the information they need to make choices that ensure value for money for they taxpayer.[14]

Quality of disclosures and users of the WGA

7. Whilst the WGA is a set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), the Treasury can provide additional information that it considers useful to the reader in the notes to the accounts and its commentary in the performance report. In 2016, the previous Committee examined WGA 2015–16 and the government balance sheet. It concluded that the information the WGA provided did not make clear the main reasons for significant year-on-year changes in the Government's finances and did not show the public money being spent by region despite public service delivery becoming increasingly devolved. We recommended that the Treasury should make the WGA clearer and more useful to the reader by providing a better understanding of the regional distribution of public money and what is causing significant changes within the government's balance sheet.[15] The Treasury accepted our recommendation and has made some progress in these areas, meaning the WGA is a more useful, better document. The Treasury now includes some regional information in the WGA, providing a breakdown of expenditure information by region.[16] This is based on the Treasury's annual publication on the Public Expenditure Statistical Analyses (PESA) which provides a breakdown of annual expenditure by objective based on definitions within the National Accounts.[17] However, the Treasury accepted that this disclosure does

10 Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018
11 Q1
12 Qq 13–15
13 Q 24
14 Qq 12–16
15 Committee of Public Accounts, Nineteenth Report of Session 2016–17, The Government Balance Sheet, HC 485, October 2016
16 Q 1, HM Treasury, Treasury Minutes: Government responses to the Committee of Public Accounts: Session 2017–19, Cm 9596, March 2018; HM Treasury, Whole of Government Accounts: year ended 31 March 2017, HC 1091, June 2018
17 HM Treasury, Public Expenditure Statistical Analyses 2017, Cm 9467, July 2017

not include regional information on assets and liabilities, and it told us that it did not have the information it needed to produce this further analysis as it would require all 7,000 public bodies included in the WGA to publish regional information.[18]

8. The Treasury admitted that it could be clearer in the WGA in explaining to the reader what substantial items are not included in the accounts because they are not required by financial reporting standards, such as future taxation receipts and the future liabilities for the state pension.[19] The Treasury recognised the WGA is a technical document, but told us it was improving the accessibility of the publication through the performance report and through further analysis in key areas.[20] We stressed the importance of this additional information, while making sure reporting was consistent from year-to-year, to provide more transparency over the public sector finances and help to meet the expectations of the public and Parliament.

9. We asked the Treasury what it was doing to disaggregate some of the larger numbers in the accounts. The Treasury committed to breaking down some of the largest areas of spend and told us it that it plans to provide more detailed information in the future on some areas, for example, by explaining what it reports under Purchases of goods & services, currently worth some £200 billion. The Treasury accepted that the amount of expenditure classified as 'other' or 'miscellaneous' was frustrating. However, it explained that while the Treasury receives the raw information, the way in which many public sector organisations report expenditure means that the information it holds isn't of an auditable quality. For example, central government reports spend by area such as staff and goods, whereas local government reports spend by functions such as social care. The Treasury told us that its new IT system should help resolve some of these quality issues. It committed to providing more detailed breakdowns in the 2019–20 WGA.[21]

10. We asked when we could expect the WGA to include detailed information on fracking and the likely cost in the event that there is a leakage. The 2016–17 WGA includes a £185 billion liability related to nuclear decommissioning, but there is currently no disclosure in the WGA to explain that the government does not have a similar commitment to decommission fracking sites. The Treasury accepted that there might be scenarios where if companies did not have sufficient capital to clean up any leaks or catastrophic failures, this may fall to the public sector and could affect public finances in the future. However, in its letter to the Committee after our evidence session, the Treasury explained that prior to awarding the licenses required to undertake fracking, the Oil and Gas Authority assesses whether a company has adequate financial capacity for its planned operations, including the decommissioning of wells.[22] It also told us the government has committed to assessing the financial resilience of all companies before issuing Hydraulic Fracture Consent.[23] During our evidence session, the Treasury told us that, theoretically, if the public sector has entered into a contract with the private sector that would entail such costs, then it would expect these to be disclosed in the Department for Business, Energy and Industrial Strategy's accounts, which would then be picked up in the WGA. The Treasury wrote to

18 Qq 42–43
19 Qq 77–90
20 Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018
21 Qq 46–52
22 Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018
23 Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018

the Committee after our evidence session to confirm that as the shale gas industry is in an early exploratory phase, government departments had not so far seen the need to make provisions for any such costs in their accounts.[24]

11. The WGA is expected to be used by a variety of audiences, including: government departments and Ministers, Parliamentary Select Committees, groups outside government, and Parliament (including taxpayers more generally), as well as academics and financial and other commentators in the media. We asked the Treasury whether these groups used the WGA in practice. The Treasury told us that whilst the WGA is used by the government finance community, it had less information on how far the WGA is read and used beyond the public sector, and could not tell us who uses the WGA beyond a number of think-tanks such as the Institute for Fiscal Studies and similar bodies. It was similarly unable to tell us how the accounts were used. The Treasury accepted that there is value in understanding how useful the intended audience of the WGA find it and the type of information they require from the accounts. The Treasury told us it shares our ambition to promote the readership of the WGA, including within Parliament and the wider public.[25]

The impact of Brexit on the public finances

12. When it is published in May 2019, the 2017–18 WGA is likely to be the first major set of accounts published after the UK's exit from the European Union (EU) in March 2019. The Treasury accepted that there will therefore be considerable expectations around the disclosures relating to the past and future cost of Brexit in WGA 2017–18. It confirmed that next year's WGA will show the Brexit costs that departments incurred during 2017–18. It told us that this will include around £700 million of costs incurred by departments in preparation for Brexit, although, in line with accounting standards, these will appear within staff costs and expenditure on goods and services, and will, therefore, not be separately identifiable in the accounts. The Treasury agreed to supplement this by setting out in the WGA 2017–18 performance report what government has been doing on Brexit preparation that year. Although any agreed financial settlement of the UK's exit from the EU will not be included in the WGA 2017–18 financial statements, the Treasury told us that it will provide detailed notes and commentary on the likely impact of Brexit. For 2017–18, this will include an 'events after the reporting period' disclosure and additional commentary in the performance report, published as a part of the WGA.[26]

13. The Treasury told us that the financial settlement for leaving the EU will first appear as a liability in the 2018–19 WGA. It also told us that, in future, it expects it will need to report on three areas related to Brexit in the WGA:

- the amounts spent on preparing for Brexit by government departments;
- the financial settlement agreed with the EU as a part of Brexit negotiations; and
- the replacement of EU schemes, such as agricultural support payments.

24 Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018
25 Qq 3–11, Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018
26 Qq 58, 61–64

14. We asked how benefits attributable to Brexit (such as any 'Brexit Dividends') and any on-going liabilities (such as those relating to the financial settlement) might be disclosed transparently in the WGA in future. The Treasury told us that these disclosures will not be 'breaking news', as much of this information will have already been made available in other forms and will be available in the annual accounts of each Department before being included in the WGA. For example, the Office for Budget Responsibility's economic forecasts will set out its expectations for how the UK's net contribution to the EU will be spent by departments or devolved administrations once the new arrangement with the EU has been agreed. We were concerned that without additional commentary in the performance report and detail in the notes to the accounts, the WGA may not provide the comprehensive information that Parliament and the public expect on the impact of Brexit on the public finances.[27]

27 Qq 61–64, 69

2 Making the best use of the public sector balance sheet

15. In 2016, the previous Committee examined the government's approach to managing the public sector balance sheet. We concluded that the Treasury needed to do more to understand the financial risks highlighted in the WGA and be clear about the impact that the Government's decisions have on the short- and long-term financial position. We recommended that the Treasury performed further analysis to understand its most significant liabilities and the value of its assets.[28] In response to the recommendations of the previous Committee, the NAO and the International Monetary Fund, the Treasury announced in Autumn Budget 2017 that it was carrying out a review of government's balance sheet with the aim of making the best use of its assets and reducing the cost of its liabilities.[29]

Progress with government's balance sheet review

16. The Treasury provided a brief update on its balance sheet review in the 2018 Budget, including the progress made on key areas such as intangible assets, property, contingent liabilities and infrastructure financing.[30] However, the Treasury has still not set out how it expects to derive long-term benefits from its review or how its management of assets and liabilities will change as a result. In January 2018, we concluded that unless actions to maximise the value from assets and reduce liabilities were embedded in routine financial management across departments, any gains from the Treasury's balance sheet review are likely to be short term. We recommended that the Treasury needs to ensure that its review has a long-term impact on the cost-effective management of government assets and liabilities.[31] The Treasury agreed with this recommendation, and told us that this was being considered as a part of its balance sheet review.[32]

17. The Treasury told us that government is not currently confident that the public sector's approach to identifying, protecting and managing its intangible assets is good enough or achieves the most value from these assets.[33] It told us that this is particularly true of 'knowledge assets' such as intellectual property and data. The Treasury said that, currently, around 2% of the assets recognised under the accounting standards in the 2016–17 WGA are intangible assets, reported in the accounts at around £30 billion. The Treasury told us that in reality the value of government's intangible assets could be as much as £150 billion.[34] Government's own report published alongside the Budget 2018 shows that it still has a long way to go to harness the benefits of public sector intangible assets and intellectual property and maximise the return from these assets. The report identified ten recommendations aimed at realising greater value from public sector

28 Committee of Public Accounts, Nineteenth Report of Session 2016–17, The Government Balance Sheet, HC 485, October 2016
29 HM Treasury, Autumn Budget 2017, HC 587, November 2017
30 HM Treasury, Budget 2018, HC 1629, October 2018
31 Committee of Public Accounts, Sixteenth Report of Session 2017–19, Government Borrowing and the Whole of Government Accounts, HC 463, January 2018
32 HM Treasury, Treasury Minutes: Government response to the Committee of Public Accounts on the Twelfth to the Nineteenth reports from the Session 2017–19, Cm 9596, March 2018
33 Intangible assets are non-monetary asset without physical substance. Examples of intangible assets include computer software, licences, trademarks, patents, films, copyrights and import quotas.
34 Q77

knowledge assets.[35] The Treasury has stated that its balance sheet review will consider how it will address these recommendations to achieve its aim of getting a better financial, economic and social return from these assets.[36]

18. As part of Budget 2018, the government announced the creation of a new Private Finance Initiative (PFI) centre of best practice—located in the Department of Health and Social Care—aimed at improving the management of existing PFI contracts.[37] We asked the Treasury what the centre will do and how costs can be saved on existing PFI contracts. The Treasury told us the initiative was a pilot aimed at improving the contract management of existing PFI arrangements. It told us that the Department of Health and Social Care was in the process of setting up the pilot in a few high-priority areas and that the Treasury expected it would be up and running within a few months. If successful, the Treasury said it would look at whether to roll it out across all 128 PFI contracts in the NHS. It also confirmed that, if successful, it would look to roll out the pilot to projects in other Departments. Despite conducting an exercise in 2011 that found significant savings through contract management, the Treasury could not say yet what savings it expects to generate from the PFI centre of best practice.[38]

19. We asked the Treasury how the Government Property Agency (GPA)—established in April 2018 - was progressing. The Treasury explained that the ambition for the GPA was to manage government property better and to ensure government isn't using multiple places in the same city, moving instead to regional hubs.[39] The Treasury told us that it aims to bring all of the Whitehall estate onto a single balance sheet within 5 years so that it is more visible and to enable better management and commercialisation of its £420 billion of property assets.[40] We were concerned that selling physical assets, such as buildings—particularly at a local level—could have a material impact on those organisations' sustainability in the longer term. At the same time, local authorities may be buying properties where they do not have a full understanding of their value and they could devalue quickly. The Treasury reassured us that with the GPA and the Crown Commercial Service, departments and the Treasury now have more expertise to call on. Nonetheless, we note these plans are ambitious and will require considerable effort and co-ordination across departments to realise any potential benefits. We will follow the GPA's progress with interest.[41]

20. Despite the Treasury's renewed focus on the public sector balance sheet, some liabilities have worsened. We remain concerned that clinical negligence liabilities have continued to rise to almost £77 billion (as at 2017–18), with the Department of Health and Social Care having identified a further £46 billion of potential expenditure relating to cases with greater uncertainty.[42] In 2016, the previous Committee recommended that the Treasury work with the, then, Department of Health and the NHS Litigation Authority to get a grip on the clinical negligence liability.[43] The government announced in Budget

35 HM Treasury, Getting smart about intellectual property and other intangibles in the public sector: Budget 2018, October 2018
36 HM Treasury, Budget 2018, HC 1629, October 2018
37 HM Treasury, Budget 2018 , HC 1629, October 2018
38 Qq 137–145
39 Qq 95–96
40 Qq 98–100, HM Treasury, Budget 2018, HC 1629, October 2018
41 Qq 102, 105–107
42 Qq 127–136, Department of Health and Social Care, Annual Report and Accounts 2017–18, 12 July 2018, pages 178–184
43 Committee of Public Accounts, Nineteenth Report of Session 2016–17, The Government Balance Sheet, HC 485, October 2016

2018 that the Department of Health and Social Care would publish a cross-government strategy to manage the rising cost of clinical negligence liabilities.[44] The Treasury told us that this cross-government review involved the Treasury, the Department of Health and Social Care and the Ministry of Justice and would be published in January 2019.[45]

21. When we examined the Department of Health and Social Care's Annual Reports and Accounts in December 2018, we concluded that the Department's inability to accurately forecast its exposure to clinical negligence costs had resulted in a £14.8 billion underspend for the year ended 31 March 2018.[46] We recommended that the Department should create a more accurate forecast of its exposure to future clinical negligence costs, which we expected to be in place in time for the supplementary estimate to avoid a similar underspend against the Department's budget in 2018–19. The Treasury told us it will report fully on its balance sheet review at the next Spending Review, which is expected in 2019.[47]

Using private finance to fund public infrastructure

22. The government used the Private Finance Initiative (PFI) for over 25 years to build public infrastructure assets. There are currently over 700 PFI and PF2 contracts in operation, with around £60 billion of assets built using them. The current and previous Committee has a long track record of inquiries into PFI and its successor PF2. Our most recent inquiry in June 2018 found that some private investors had made large returns from PFI deals and that the Treasury still had no data to show that PFI provides value for money. The Treasury wrote to us after our evidence session and told us it is continuing to take steps with the Infrastructure and Projects Authority to produce better data on the benefits of PFI and PF2, and committed to writing to the Committee with its results by summer 2019.[48] We also found that PF2 was hardly being used, with just six projects using this model since its introduction in 2012 (with a combined capital cost of £920 million). We recommended that the Treasury outline how it expects public bodies to use PF2 and other types of private finance in future.[49] In the 2018 Budget, the government announced that it would no longer use PF2 for new projects, having found the model to be inflexible and overly complex.[50]

23. We were concerned that a greater burden could be placed on the public sector now PF2 has been cancelled for new projects and we asked the Treasury what will replace it. The Treasury told us that it was not planning to replace PF2 with a single preferred approach, or to develop a new single framework. The Treasury said it will use a range of existing frameworks to fund new projects, including public investment. However, the Treasury could not confirm to us whether existing projects—those currently being planned—that were expected to use the PF2 model will now be part- or fully-funded by the public purse.[51] For example, the A303 Stonehenge road improvement project has a planned cost of £1.6

44 HM Treasury, Budget 2018, HC 1629, October 2018
45 Qq 127–128
46 Committee of Public Accounts, Seventy First Report of Session 2017–19, The Department of Health and Social Care Annual Report and Accounts, HC 1515, December 2018
47 Qq 108–109
48 Letter from Tom Scholar to Meg Hillier – Whole of Government Accounts, 11 December 2018
49 Committee of Public Accounts, Forty-Sixth Report of Session 2017–19, Private Finance Initiatives, HC 894, June 2018
50 HM Treasury, Budget 2018, HC 1629, October 2018
51 Qq 110–112, 114–119

billion and was expected to use the PF2 funding model.[52] The Treasury could not tell us how this project will now be funded, but confirmed that it was "not evaluating alternative private solutions".[53]

24. The Treasury asserted that it was confident that it will be able to use other existing funding models in the place of PF2. It told us that it will decide on which of the existing funding models to use on a project-by-project basis.[54] However, we have raised concerns regarding the value for money of many of these funding models in the past, including contracts for difference. During our inquiry into Hinkley Point C—a project that uses a contract for difference funding model—we found that government locked consumers into an expensive deal, and that the Treasury didn't sufficiently appraise alternative ways to finance the deal that might have offered better value for consumers. We recommended that the Treasury should show decision makers the cost and risk implications of different possible financing structures when appraising large infrastructure projects, even if they are outside the prevailing policy.[55] The Treasury agreed with this recommendation and committed to assessing the cost and risk implications of a range of possible financing structures when appraising large infrastructure projects.[56]

52 Highways England, Improvements and Major Road Projects – A303 Stonehenge

53 Qq 116–119

54 Qq 110, 113–114

55 Committee of Public Accounts, Third Report of Session 2017–19, Hinkley Point C, HC 393, November 2017

56 HM Treasury, Treasury Minutes: Government response to the Committee of Public Accounts on the Second and Third reports from Session 2017–19, Cm 9565, January 2018

Formal Minutes

Monday 21 January 2018

Members present:

Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown	Stephen Morgan
Chris Davies	Anne Marie Morris
Chris Evans	Bridget Phillipson
Caroline Flint	Lee Rowley
Shabana Mahmood	Gareth Snell
Nigel Mills	Anne-Marie Trevelyan

Draft Report (*Whole of Government Accounts*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 24 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Seventy-Fourth 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.

[Adjourned till Wednesday 23 January at 2:00pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 14 November 2018

Sir Tom Scholar, Permanent Secretary, **Charles Roxburgh**, Second Permanent Secretary, **James Bowler**, Director General Public Spending, and **Vicky Rock**, Head of Financial Reporting Policy, HM Treasury. Q1–156

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

WGA numbers are generated by the evidence processing system and so may not be complete.

1 HM Treasury (WGA0001)

List of Reports from the Committee during the current Parliaments

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575) (Cm 9596)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575) (Cm 9618)
Twelfth Report	HMRC's Performance in 2016–17	HC 456 (Cm 9596)
Thirteenth Report	NHS continuing healthcare funding	HC 455 (Cm 9596)
Fourteenth Report	Delivering Carrier Strike	HC 394 (Cm 9596)
Fifteenth Report	Offender-monitoring tags	HC 458 (Cm 9596)
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463 (Cm 9596)
Seventeenth Report	Retaining and developing the teaching workforce	HC 460 (Cm 9596)

Eighteenth Report	Exiting the European Union	HC 467 (Cm 9596)
Nineteenth Report	Excess Votes 2016–17	HC 806 (Cm 9596)
Twentieth Report	Update on the Thameslink Programme	HC 466 (Cm 9618)
Twenty-First Report	The Nuclear Decommissioning Authority's Magnox	HC 461 (Cm 9618)
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875 (Cm 9618)
Twenty-Third Report	Alternative Higher Education Providers	HC 736 (Cm 9618)
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468 (Cm 9618)
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468 (Cm 9618)
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896 (Cm 9618)
Twenty-Seventh Report	Government contracts for Community Rehabilitation Companies	HC 897 (Cm 9618)
Twenty-Eighth Report	Ministry of Defence: Acquisition and support of defence equipment	HC 724 (Cm 9618)
Twenty-Ninth Report	Sustainability and transformation in the NHS	HC 793 (Cm 9618)
Thirtieth Report	Academy schools' finances	HC 760 (Cm 9618)
Thirty-First Report	The future of the National Lottery	HC 898 (Cm 9643)
Thirty-Second Report	Cyber-attack on the NHS	HC 787 (Cm 9643)
Thirty-Third Report	Research and Development funding across government	HC 668 (Cm 9643)
Thirty-Fourth Report	Exiting the European Union: The Department for Business, Energy and Industrial Strategy	HC 687 (Cm 9643)
Thirty-Fifth Report	Rail franchising in the UK	HC 689 (Cm 9643)
Thirty-Sixth Report	Reducing modern slavery	HC 886 (Cm 9643)
Thirty-Seventh Report	Exiting the European Union: The Department for Environment, Food & Rural Affairs and the Department for International Trade	HC 699 (Cm 9643)
Thirty-Eighth Report	The adult social care workforce in England	HC 690 (Cm 9667)
Thirty-Ninth Report	The Defence Equipment Plan 2017–2027	HC 880 (Cm 9667)

Fortieth Report	Renewable Heat Incentive in Great Britain	HC 696 (Cm 9667)
Forty-First Report	Government risk assessments relating to Carillion	HC 1045 (Cm 9667)
Forty-Second Report	Modernising the Disclosure and Barring Service	HC 695 (Cm 9667)
Forty-Third Report	Clinical correspondence handling in the NHS	HC 929
Forty-Fourth Report	Reducing emergency admissions	HC 795
Forty-Fifth Report	The higher education market	HC 693
Forty-Sixth Report	Private Finance Initiatives	HC 894
Forty-Seventh Report	Delivering STEM skills for the economy	HC 691
Forty-Eighth Report	Exiting the EU: The financial settlement	HC 973
Forty-Ninth Report	Progress in tackling online VAT fraud	HC 1304
Fiftieth Report	Financial sustainability of local authorities	HC 970
Fifty-First Report	BBC commercial activities	HC 670
Fifty-Second Report	Converting schools to academies	HC 697
Fifty-Third Report	Ministry of Defence’s contract with Annington Property Limited	HC 974
Fifty-Fourth Report	Visit to Washington DC	HC 1404
Fifty-Fifth Report	Employment and Support Allowance	HC 975
Fifty-Sixth Report	Transforming courts and tribunals	HC 976
Fifty-Seventh Report	Supporting Primary Care Services: NHS England’s contract with Capita	HC 698
Fifty-Eighth Report	Strategic Suppliers	HC 1031
Fifty-Ninth Report	Skill shortages in the Armed Forces	HC 1027
Sixtieth Report	Ofsted’s inspection of schools	HC1029
Sixty-First Report	Ministry of Defence nuclear programme	HC 1028
Sixty-Second Report	Price increases for generic medications	HC 1184

Sixty-Third Report	Interface between health and social care	HC 1376
Sixty-Fourth Report	Universal Credit	HC 1375
Sixty-Fifth Report	Nuclear Decommissioning Authority	HC 1375
Sixty-Sixth Report	HMRC's performance in 2017–18	HC 1526
Sixty-Seventh Report	Financial Sustainability of police forces in England and Wales	HC 1513
Sixty-Eighth Report	Defra's progress towards Brexit	HC 1514
Sixty-Ninth Report	Sale of student loans	HC 1527
Seventieth Report	Department for Transport's implementation of Brexit	HC 1657
Seventy-First Report	Department for Health and Social Care accounts	HC 1515
Seventy-Second Report	Mental health services for children and young people	HC 1593
Seventy-Third Report	Academy accounts and performance	HC 1597
First Special Report	Chair of the Public Accounts Committee's Second Annual Report	HC 347
Second Special Report	Third Annual Report of the Chair of the Committee of Public Accounts	HC 1399