Dear Sir Tom,

RE: Whole of Government Accounts 2017-18

Thank you for your evidence and that of your colleagues on the Whole of Government Accounts 2017-18 on Wednesday 19 June.

As you know, the Committee considers the Whole of Government Accounts (WGA) to be invaluable in providing a unique insight into some of the biggest challenges facing Government. Our ambition is that the WGA enables the public and Parliament to use the WGA to assess the success, or otherwise, of the delivery of public policy and to provide a credible record that can be relied upon externally and internally to provide ministers and officials with the information they need to both run government. We are encouraged by the improvements HM Treasury has made to the WGA in the past but have some concerns about whether it shares the Committee’s ambition and consequently whether the improvements to the WGA it is planning will be as comprehensive as we think they need to be.

In place of a formal report, this letter sets out the Committee’s main observations and concerns around the sustainability of public finances, the quality of information in the WGA and your accounts production process. We would be grateful for your reply to the points raised in this letter within two months. I am copying this letter to the Comptroller & Auditor General and to the Treasury Officer of Accounts

1. We would like the WGA to provide better insight into how well the government is managing risks to fiscal sustainability. As an IFRS-based set of accounts, we understand that not all information relevant to fiscal sustainability will be contained within the financial statements as assets or liabilities. But if users of the accounts do not understand the major outflows of income and expenditure that we know will happen in future years - including the state pension, future tax receipts or planned major changes to government spending including any impact relating to EU Exit - the public and Parliament are not getting the full picture of risks to fiscal sustainability. We see no reason why you do not use your narrative in your annual report to set out this information.

Following from this, the WGA does not provide enough detail on how well government is performing against its key policy objectives relating to managing fiscal
risks. You helpfully wrote to me in June 2019 to provide an update on the Balance Sheet Review – while we can see there is progress, it is not clear how this ensures a lasting impact on the cost-effective management of government assets and liabilities.

More generally the Committee considers that it would be highly valuable to the public and parliamentarians to apply for the WGA a similar approach to the Treasury’s reporting requirements that ensure central government departments set out what they see as their key performance measures, including how they check performance against those measures and narrative to explain the link between KPIs, risk and uncertainty.

We see there are clear opportunities to use the WGA as a mechanism for critically assessing government’s performance in managing fiscal risks and meeting its other key performance measures. Current reporting mechanisms through planned Spending Reviews and responses to the OBR’s work do not feel satisfactory.

I would be grateful if you set out your plans to use the WGA to provide more insight into risks to delivery of public policy and then assess government’s performance in managing those risks.

On a related note, you stated you would write to the Committee to outline the initial costs of the McCloud ruling. Given government has not been granted the right to appeal, could you please set out how much you expect it to cost government and how these costs will be funded.

2. We would like to understand more about what HM Treasury will do to ensure users of the accounts have access to the information they find valuable in the WGA. You outlined the understandable reasons why information is limited in some areas, but, taking spending on preparations for EU Exit as an example, it does not feel acceptable to the Committee that Parliament and the public will not understand the true cost of EU Exit given its significance for the future of our country, and, where departments have had to reprioritise their activity, what is the activity that has not taken place. Furthermore, it does not give us assurance that the activity is being well managed.

You explained that Treasury has an important role in improving information through the harmonisation of, and compliance with, financial reporting standards, both between central and local government and within central government. Yet:

• Within central government, poor compliance with your own consolidation process leads to reduced insight on important areas of government spend such as purchases of goods and services; and

• While we appreciate the lack of harmonisation between central and local government may be driven by differing statutory reporting requirements, it leads to qualification on the C&AG’s opinion and a compromised understanding of the government’s position.

I shall be grateful if you would explain what is specifically taking place to achieve better harmonisation and compliance and the timescale for when it will be achieved.
3. We discussed your team’s achievement of publishing the WGA a month earlier than in the prior year. You explained that you are dependent on the introduction of a new account consolidation system to realise your ambition to publish the WGA earlier than 12 months after the year end.

The Committee were not provided with the assurance it was looking for that your planned implementation timetable for the new account consolidation system is achievable. For example, the training requirement and implied burden on component bodies arising from the several thousand users of the new system will be significantly greater versus the 400 or so users who access the current system.

As we discussed in the session, bringing the publication of the WGA earlier will not by itself produce a radical step change in how the document is used. The Committee would encourage the Treasury to focus its efforts on making the WGA as useful as possible to its users, whether that be through bringing the publication earlier or through enhancing the insight it provides as we outlined earlier in this letter.

However, you noted that you have not yet conducted your planned survey of those who use the WGA. We are therefore concerned that you will not have sufficient time to take into account user feedback to both improve the insight the WGA provides and publish the next WGA by the end of March 2020, and to inform the design and construction of the account consolidation system to ensure it will address the needs of users.

I should be grateful if you could explain how user feedback will be used to inform the next WGA and the new IT system and whether this is factored into the planned timetables, the specific benefits of the new IT system in improving timeliness and quality, and how you will manage the impact of the new IT system on component bodies.

We make these observations and raise these concerns as we are passionate about the WGA. At the end of the session we discussed holding a workshop with you, so you can get the views of the Committee as part of your efforts to seek user feedback. The Clerk to the Committee will be contacting your office to make arrangements.

MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS