



House of Commons
Treasury Committee

**Administration and
expenditure of the
Chancellor's
departments, 2006–07:
Government response
to the Committee's
Seventh Report of
Session 2007–08**

Ninth Special Report of Session 2007-08

*Ordered by the House of Commons
to be printed 13 May 2008*

HC 564
Published on 21 May 2008
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)
Nick Ainger MP (*Labour, Carmarthen West & South Pembrokeshire*)
Mr Graham Brady MP (*Conservative, Altrincham and Sale West*)
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Mr Michael Fallon MP (*Conservative, Sevenoaks*) (Chairman, Sub-Committee)
Ms Sally Keeble MP (*Labour, Northampton North*)
Mr Andrew Love MP (*Labour, Edmonton*)
Mr George Mudie MP (*Labour, Leeds East*)
Mr Siôn Simon MP, (*Labour, Birmingham, Erdington*)
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)
Mr Mark Todd MP (*Labour, South Derbyshire*)
Peter Viggers MP (*Conservative, Gosport*).

Powers

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/treascom.

A list of Reports of the Committee in the current Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Sïan Jones (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young and Jay Sheth (Committee Specialists), Phil Jones (Committee Assistant), Caroline McElwee (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

Contacts

All correspondence should be addressed to the Clerks of the Treasury Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is treascom@parliament.uk.

Ninth Special Report

The Treasury Committee published its Seventh Report of Session 2007–08, *Administration and expenditure of the Chancellor's departments, 2006–07*, on 7 March 2008, as House of Commons Paper No. 57. The Government response to this Report was received on 7 May 2008, and is appended below:

Appendix: Government response

The Treasury Group's own resources

Overall expenditure trends

1. Significant under-spends in successive years have seen the Treasury Group build up exceptionally large stocks of End-Year Flexibility, exceeding the Group's annual budget within Departmental Expenditure Limits. On the assumption that the Treasury will wish to set an example to other departments through continued restraint on Departmental Expenditure Limits expenditure in the period covered by the Comprehensive Spending Review, there appear to be few prospects for this stock to be deployed to a significant extent for the Group's expenditure within Departmental Expenditure Limits. We recommend that, in its response to this Report, the Government state whether there are any circumstances in which the Treasury Group's Departmental Expenditure Limits End Year Flexibility stock might be used for purposes other than expenditure within the Group's Departmental Expenditure Limits. (Paragraph 14)

Some of HM Treasury's End Year Flexibility (EYF) stock may be utilised at the end of the Comprehensive Spending Review period to fund the effects of the Civil List renegotiation in the event that this cannot be accommodated within 2010–11 DEL provision. Up to £6 million may also be utilised to finance the Pathfinder on Money Guidance which is planned for 2008–09 and 2009–10 as part of the Treasury's response to the Thoresen Report.¹ The position will be kept under review and a case for take-up of EYF made in the event that HM Treasury cannot accommodate the need for additional funding within its DEL.

The Treasury's EYF stock will be re-examined in the next Spending Review. If it is deemed excessive, it could either be given up or used to fund the Treasury's plans for future periods.

¹ Thoresen Review of generic financial advice: final report, HM Treasury, 3 March 2008, available from www.hm-treasury.gov.uk

The Gershon efficiency programme in the Treasury Group

2. OGCBuying.solutions' role or status does not provide sufficient justification for its exclusion from the calculations for headcount reductions. We therefore reiterate our view that there is a risk that the practice of excluding certain categories of staff increases from calculations of headcount reductions for the purposes of the efficiency programme detracts from the overall credibility of the headcount statistics. (Paragraph 19)

The Government does not accept the Committee's conclusion. As was made clear in the Government's response to the Committee's recent report on the efficiency programme in the Chancellor's departments (HC 82), *OGCBuying.solutions* is excluded from the calculations for headcount reductions because of its Trading Fund status and role as an enabler of wider efficiency savings across government. The inclusion of *OGCBuying.solutions* in headcount reduction targets would have imposed conflicting incentives to seek departmental efficiencies while aiming to meet its Trading Fund objectives to generate additional sales income over the SR04 period. Alternatively, the inclusion of assumed levels of *OGCBuying.solutions* headcount growth within the calculation of the overall headcount target for the Treasury Group could have reduced the incentive on *OGCBuying.solutions* to maintain staffing at the most appropriate level for the volumes of business generated over the period.

Nevertheless, the Government is conscious that, because of this specific treatment of *OGCBuying.solutions*, a cursory analysis of staffing levels across the SR04 years could raise issues about the overall credibility of the Treasury Group's headcount reduction statistics. For completeness, and to allay any concerns about credibility, Table 1 sets out the changes in staff numbers for the Treasury Group and *OGCBuying.solutions*, using the figures reported in the *HM Treasury Annual Report and Accounts 2006–07* (HC 518). These indicate that the targets of 150 reductions by March 2008 would have been exceeded, even with the inclusion of *OGCBuying.solutions*. As in previous years, the Annual Report and Accounts for 2007–08 will contain an update on the headcount position for each member of HM Treasury Group and *OGCBuying.solutions*.

Table 1: Headcount in Treasury Group 2004 to 2008

<i>FTE headcount</i>	Baseline 1 April 2004	1 April 2005	1 April 2006	1 April 2007	Plans 1 April 2008	Target March 2008
Treasury Group	1,734	- 52	- 86	- 156	- 211	- 150
<i>of which:</i> Core Treasury	1,338	- 103	- 112	- 131	- 150	-150
DMO	86	- 9	- 14	- 10	- 1	—
OGC	310	+ 60	+ 40	- 15	- 60	—
OGCBuying.Solutions	243	+ 17	+ 39	+ 46	+ 47	—
TOTAL	1,977	- 35	- 47	- 110	- 164	- 150

Efficiency in the Treasury Group, 2008–09 to 2010–11

3. In view of the extent to which Value for Money Delivery Agreements were portrayed by the Government as a new departure in reporting on efficiency, we view the Treasury Group's own document as disappointing. (Paragraph 22)

The Government notes the committee's comments but does not consider that the Treasury Group's Value for Money Delivery Agreement falls short of the standard expected from Departments.

Value for Money Delivery Agreements are successors to the Efficiency Technical Notes which followed the 2004 Spending Review. VfM programmes in the 2007 Comprehensive Spending Review are deliberately flexible to enable departments to react to new challenges and opportunities to deliver maximum value for money.

Treasury Group's Delivery Agreement, published in December 2007, clearly sets out how the Group will deliver value for money over the CSR07 period. It is designed to help laypeople understand the steps Treasury Group will undertake to ensure that taxpayers' money is well spent. As during SR04, Treasury Group will review its delivery agreement regularly and will publish revisions when necessary. All Departments, including Treasury Group, will report VfM savings in their Departmental Reports and Autumn Performance Reports each year.

4. We recommend that, in its response to this Report, the Government set out the efficiency targets for each organisation within the Treasury Group and for further savings from estate rationalisation and Group Shared Services for each year over the period from 2008–09 to 2010-11. (Paragraph 23)

As set out in Treasury Group's Value for Money Delivery Agreement, Treasury Group anticipates delivering £30 million of Value for Money savings by 2010–11.

Table 2 overleaf gives indicative figures for the savings each member of Treasury Group is expected to deliver in each year of the CSR period, although these may vary from the actual savings delivered.

The Value for Money savings from Programme expenditure are expected to fall from £1.3m in 2008–09 to £0.3m in 2010-11, as these costs are less controllable than the Administration costs experienced by each member of Treasury Group; therefore, it is anticipated that inflationary pressures will erode the savings made in 2008–09 over the CSR period.

Table 2: Treasury Group indicative value for money savings

<i>£ million</i>	2008–09	2009–10	2010–11	Nominal Savings per annum
Core Treasury	5.3	9.6	13.1	5.5%
Group Shared Services ^a	3.1	7.5	10.6	6.5%
Office of Government Commerce	2.3	4.4	5.3	6.2%
UK Debt Management Office	0.1	0.4	0.7	2.5%
Programme	1.3	0.8	0.3	0.2%
Treasury Group Total ^b	12.1	22.7	30.0	4.1%

^a Savings for Group Shared Services include all savings from the rationalisation of the Group's estate

^b As a result of rounding, the total line may not equal the sum of each Group member's contribution.

5. We recommend that the Government, in its response to this Report, state how it proposes that the quality of service of the Treasury Group during the period from 2008–09 to 2010–11 be measured, and whether there are arrangements in place to identify whether efficiency savings have led to any detrimental effects on quality of performance. (Paragraph 24)

The CSR07 Value for Money programme has been designed to support the Government's drive to improve the quality of public services further. Over the course of the CSR period the quality of key public services will improve dramatically as a result of sustained investment, reform and work to drive Value for Money. These improvements will be demonstrated through progress towards Public Service Agreements and Departmental Strategic Objectives.

6. Even if formal responsibility for general oversight of the efficiency programme across Government is separate from management of the Treasury's own programme, we consider it unsatisfactory that the role of oversight and challenge be undertaken from within the same organisation. We recommend that the Government put in place arrangements for the Cabinet Office to perform the role of challenge and oversight in relation to the Treasury Group's own efficiency programme. (Paragraph 25)

The Government does not accept the committee's conclusion. We disagree in principle that HM Treasury cannot fulfil an effective oversight and challenge function of value for money savings within the Treasury Group, and believe the successful record of delivery over the SR04 period demonstrates that this is not the case. For the CSR07 period, all departments including the Treasury will carry out an internal audit in the first year of the programme to ensure that the systems and processes in place are sufficiently robust. External scrutiny will be provided by the National Audit Office, which has agreed to

audit gains reported by the Treasury and other departments during the course of the programme.

The Royal Mint

7. We recognise that considerable work has been undertaken in the last year to enable the Royal Mint to improve its financial performance and congratulate all those concerned. We note that more work will need to be done to enable the Mint to meet its Average Rate of Return target set by the Treasury for 2007–08. (Paragraph 29)

The Government welcomes the committee's conclusions. The Royal Mint will report on its success in achieving its 2007–08 target in its Annual Report later in the year.

Service Level Agreement

8. We note that the new Service Level Agreement is intended to enable the Treasury to achieve £2.9 million programme-based efficiency savings and we will return to this issue in the Autumn to see if these savings are achieved. (Paragraph 38)

The Government remains confident that the Treasury will have achieved its targeted level of financial savings over the SR04 period. The Treasury has already reported £18.9m of final savings as at 30 September 2007² and expects to have exceeded this at the end of March 2008.

In his evidence to the Committee on 10 October 2007, the then Chief Executive, Mr Barrass, explained that the Royal Mint's contribution was part of a wider Treasury pool of savings.³ As the Treasury's Efficiency Technical Note makes clear,⁴ the new Service Level Agreement with the Royal Mint is only one part of how HM Treasury intends to deliver efficiency savings in its Programme expenditure. Other contributors include the outsourcing the gilts registration contract and reviewing the grant in aid to the Statistics Commission. The Programme expenditure workstream had delivered £2.4 million of efficiency savings by 30 September 2007.²

2 Autumn performance Report, HM Treasury, December 2007, Annex B

3 HC (2007–08) 57, Ev 3, Q 31

4 Efficiency Technical Note 2006, HM Treasury, December 2006, page 10

Future prospects for vesting the Mint as a Government-owned company

9. We welcome the Mint's ambition to develop its business by establishing itself as a corporate entity separate from Government, and we agree that it will benefit from a standard company governance framework. The Mint is clearly in its strongest and most viable position for some time and we look to its new Chief Executive to take the vesting process forward successfully. (Paragraph 40)

The Government acknowledges the Committee's conclusions. The Treasury, Shareholder Executive and the Royal Mint are working together to assess the appropriate strategy for the Mint going forward.

Financial reporting

10. Provided that adequate arrangements are put or remain in place for reporting on the performance of the Office of Government Commerce and the Debt Management Office, and subject to the response to the specific recommendations in the remainder of this chapter, we view the pilot for combining the resource accounts and the departmental annual report of the Treasury Group as offering an opportunity for continued improvement in the quality of financial reporting by the Group in future. (Paragraph 41)

The Government welcomes the committee's endorsement of Treasury Group's combined Departmental Report and Resource Accounts—the Annual Report and Accounts. The Permanent Secretary to the Treasury advised the Committee in April 2008 of the Treasury Group's intention to publish a combined report again for 2007–08.

11. We are disappointed that the Treasury's annual report and accounts for 2006–07 do not include forward plans for expenditure linked to objectives comparable to the information provided in the departmental report for 2005–06. We recommend that such information for the period 2008–09 to 2010–11 be included within the annual report and accounts for 2007–08. The Treasury's capacity to include such plans and then to report on performance in relation to such plans will be an important indicator of the extent of the Treasury's success in seeking to raise the standards of its own financial management and reporting. (Paragraph 42)

At the time of publishing the Annual Report and Accounts for 2006–07, the Treasury Group was in the process of defining its Departmental Strategic Objectives (DSOs) for the 2007 Comprehensive Spending Review (CSR07) period, and agreeing those cross-government Public Service Agreements (PSAs) for which it would be a delivery partner. It was not possible at that stage to include a forward plan for expenditure for the CSR period.

HM Treasury's Departmental Strategic Objectives for 2008–11, set out in the 2007 Comprehensive Spending Review, are:

- maintaining sound public finances; and

- ensuring high and sustainable levels of economic growth, well-being and prosperity for all.

Treasury Group's Annual Report and Accounts in 2007–08 and subsequent years will include a breakdown of forward plans for expenditure linked to these DSOs, which are underpinned by 13 outcomes. The Treasury Group is also a delivery partner for seven PSAs, one of which (reducing child poverty) is led by the Treasury Group.

12. We recommend that information on bonus payments as a proportion of total Treasury Group remuneration, divided between organisations, and on bonus payments to individual members of the Executive Board be included in future reports and accounts. (Paragraph 43)

The Government accepts the Committee's recommendation, along with recommendation 31 below.

The Treasury will consult stakeholders across Government on the most appropriate way to report staff remuneration in future resource accounts in preparation for the Financial Reporting Manual guidance for 2008–09 onwards.

In addition, the Treasury Group's Annual Report and Accounts for 2007–08 will include details of the performance payments⁵ made by the Treasury Group in 2007–08, divided by its member organisations, and on the performance pay⁵ awarded to individual members of the Treasury Board in that year.

13. We recommend that the Treasury reinstate information on staffing by grade, including the gender and diversity of staffing by grade, in future Reports and Accounts. (Paragraph 44)

The Government accepts the Committee's recommendation. Information on staffing, including diversity of staff, will be included in the Treasury Group's Annual Report and Accounts for 2007–08 and subsequent years.

⁵ Performance pay in this context refers to variable pay which is not consolidated into base pay and is non-pensionable.

The Treasury as a central department

The challenge

14. The Treasury's roles in allocating and controlling public spending and in acting as a guardian of propriety and economy in public services mean that it will never be universally popular amongst other Government departments and other stakeholders. While we would not wish the Treasury to become too inhibited in performing its role at the centre of Government, we welcome the steps that the Treasury is taking in response to the call in the Capability Review for "greater inclusiveness and humility" in the Treasury's dealings with others. We recommend that a summary of the results of the annual surveys of stakeholder opinion and the Treasury's response to stakeholders be published in the Treasury's annual reports. We further recommend that a summary of quantitative evidence from the survey conducted as part of the Capability Review be published in the Government's response to this Report, to serve as a baseline for measuring progress in the subsequent, annual surveys. We recommend that the Treasury take steps to address concerns expressed in the Capability Review to bolster the depth and breadth of their officials' practical experience. (Paragraph 48)

The Government accepts the Committee's recommendation that a summary of the results of new annual surveys of stakeholder opinion, currently being developed, and a summary of the Treasury's response to stakeholders, be published. The Treasury will include these in its Annual Report and Accounts for 2008–09 and subsequent years.

The Government also accepts the Committee's recommendation to address the depth and breadth of Treasury officials' practical experience. HM Treasury will build on its interchange and loan policies to provide officials with the opportunity to gain experience outside the Treasury. In line with the Cabinet Office recommendation, by 2012 all officials promoted to the SCS will be required to have experience of delivery.

Quantitative evidence from the Treasury's Capability Review is not available. The Capability Review conducted interviews with Treasury stakeholders, rather than a survey.

Managing the efficiency programme

15. We are not convinced that the Treasury's Public Spending Directorate is suitably placed to play an effective role in supporting and challenging departmental efficiency programmes. It is not evident that a role in questioning the validity of claimed efficiency savings is compatible with the task of ensuring that public spending limits are adhered to. The Capability Review of the Treasury demonstrates that our uncertainty is shared by others. We recommend that the Treasury clarify its own role in relation to the efficiency programme for the period from 2008 to 2011 in a swift response to this Report. (Paragraph 51)

Having set the framework and issued detailed guidance on measuring and reporting Value for Money (VfM) savings, HM Treasury will play an active role throughout the CSR period, as part of its core departmental objective to ensure that public money is well spent. However, the aim is to mainstream the programme within departments' core business and, whilst the Treasury will support departments and intervene to challenge progress where appropriate, departments are themselves responsible for achieving, validating and reporting on progress towards their VfM targets.

The delivery of VfM savings will play an important role in enabling departments to remain within budget whilst delivering their performance targets and investing to improve public services. The Public Spending and Growth Directorate has successfully managed the 2004 Efficiency Programme for some time now, and is the centre of expertise on public spending issues. Given that VfM savings are an integral part of the public spending agenda in the CSR period, the Government believes that the Treasury's Public Spending Directorate is ideally placed to support and challenge departmental performance in this area.

However departmental programmes are not simply subject to Treasury scrutiny: in the first year of the programme all departments will conduct an internal systems audit, and external scrutiny will be provided by the National Audit Office, who have agreed to audit reported gains on a departmental basis.

The Treasury's Capability Review identified uncertainty amongst stakeholders about its role in securing better value for money in other government departments and how this will operate in practice, but not its ability to do so nor the probity of the Treasury performing this function. As part of its work to respond to the Capability Review, the Treasury is working with other central Government departments to clarify roles and responsibilities at the centre of government.

Financial management in Government

16. We welcome progress by the Treasury, other Government departments and the National Audit Office towards the objective of laying all Resource Accounts before the House of Commons before the Summer recess. We look forward to further progress on the quality of such Accounts measured by the number of qualified Accounts. (Paragraph 53)

By the Summer recess 2007, 93 % of departments had laid their resource accounts before the House of Commons. In 2008 the Treasury anticipates further improvement on departmental progress towards meeting the pre-recess deadline.

The Comptroller and Auditor General has recognised that the quality of resource accounts submitted for audit continues to be generally high, with the majority of departments producing good quality, unqualified accounts. For those bodies that have had qualified accounts, there is no consistent pattern to the number arising, nor is there any pattern between comparative years. The Government takes the issue of qualifications seriously and HM Treasury engages with the bodies concerned and the National Audit Office, to resolve individual issues to improve future quality.

17. We expect the Government, in its response to this Report, to explain why the Treasury's objective for the appointment of professionally-qualified Finance Directors in all departments by December 2006 was not met. We further recommend that a relevant accountancy qualification be described as an essential criterion in all future advertisements for posts of departmental Finance Directors. (Paragraph 54)

A professional accountancy qualification from one of the six main accountancy bodies is now a pre-requisite for all Finance Director posts. HM Treasury continues to be diligent in reminding Permanent Secretaries of the need to appoint qualified Finance Directors. However, it is the responsibility of individual departments, and not HM Treasury, to make senior civil service appointments. The Head of the Government Finance Profession continues to work closely with Permanent Secretaries on the recruitment and selection of all Finance Directors at Director-General level.

By December 2006, over 90 per cent of resource spending was in departments with a professionally qualified Finance Director. Of the remaining 10 per cent, the Ministry of Defence—accounting for 9 per cent of total resource spending—was the only major department without a professional Finance Director. The remaining resource spending (less than 1 per cent) was in a handful of small departments which either had a Finance Director in the course of qualifying (Serious Fraud Office, Ofwat), or did not at that stage have recruitment or training plans to meet the policy (Crown Prosecution Service, Northern Ireland Office, Postcomm, UK Trade & Investment).

Since December 2006 further progress has been made, although the overall position will inevitably fluctuate from time to time as people move on and there may be some gaps in recruitment. As at the end of March 2008, only 3 departments did not have a qualified Finance Director:

- Ministry of Defence, whose Permanent Under-Secretary of State confirmed, in evidence to the Public Accounts Committee in November 2007, that the current Finance Director's successor would be financially qualified;
- Crown Prosecution Service, whose Finance Director is in the process of qualifying; and
- HM Revenue & Customs, whose professionally qualified Finance Director left at the end of March 2008, and the appointment of a permanent successor will follow the current process for the appointment of a Chief Executive Officer.

18. We recommend that the Treasury identify a method of measuring its success in its own role in supporting improvements in financial management across Government, such as the annual survey of stakeholder opinion, and report on performance against that measure in future department annual reports. (Paragraph 55)

The Government accepts the Committee's recommendation. This work will be undertaken as part of the Treasury's development of an annual stakeholder survey in response to its Capability Review. The Treasury will include a summary of the results of these surveys, and a summary of its response to stakeholders, in its Annual Report and Accounts for 2008–09 and subsequent years.

Since June 2004 HM Treasury has hosted regular meetings of Finance Directors of the largest departments (the Finance Directors Working Group) and of all Finance Directors to encourage best practice and to seek input at an early stage on aspects of the Treasury's financial management agenda. In June 2007 this was extended when HM Treasury created the Government Hundred Group, a network of senior finance professionals from departments, executive agencies and non-departmental public bodies. This group is actively engaged in a number of areas on collaboration and support in capability building, joint problem-solving and sharing best practice.

19. We are disappointed by the absence of any meaningful information in Delivery Agreements accompanying the new Public Service Agreements for the period from 2008–09 to 2010–11 about linkages between delivery against outcome indicators and the resources to be applied to each Public Service Agreement. This indicates that there is still some considerable room for improvement in financial and performance management within Government. We recommend that the Treasury set itself a target to ensure that the Public Service Agreements finalised as part of the next Spending Review in 2009 or 2010 include a clear statement about the resources to be allocated across Government to the delivery of each Agreement. (Paragraph 57)

Strong accountability and transparent public reporting have been at the heart of the Government's performance management framework. The Delivery Agreements published in October 2007 represent a significant step forward in the public accountability of Government for delivery of its priorities: for the first time Delivery Agreements set out the vision, measurement and delivery strategy for each of the Public

Service Agreements. However, the Government is keen to look at how to develop this further and build on the successes of the previous spending reviews, and will consider how to take the Committee's recommendation forward as the performance management framework evolves in future spending reviews.

Financial reporting

20. We will continue to examine the implications of the implementation of International Financial Reporting Standards for Government accounting and for the national accounts. (Paragraph 60)

The Government welcomes the Committee's continued interest in the implications of the implementation of International Financial Reporting Standards (IFRS) for Government accounting. Of themselves, IFRS have no impact on the national accounts, since the national accounts are produced using rules established by Eurostat and set out in the European System of Accounts (ESA95).

Budget 2008 announced a delay in the implementation of IFRS until 2009–10, following representations from some departments that the original timetable would not allow sufficient time to conclude the correct accounting treatment for PFI contracts under IFRS. The Financial Reporting Advisory Board (FRAB) supports this delay, but the Treasury has accepted its recommendation that departments should prepare shadow IFRS-based accounts for 2008–09. Draft PFI accounting rules have been issued to departments and will be considered again by FRAB in June 2008.

The Office for National Statistics (ONS) uses the judgements made under existing PFI accounting rules to determine the balance sheet treatment of PFI schemes in the national accounts on the basis that UKGAAP and ESA95 are consistent in this area. ONS has already stated that it does not see the IFRS standard as consistent with ESA, so there is some question over whether ONS will be able to use judgements made under the new rules in the same way. The Treasury is awaiting ONS's views on this issue. The delay in moving to IFRS is mirrored by a delay in the first set of Whole of Government Accounts. This delay will allow more time to align accounting policies across the public sector, particularly in relation to PFI.

Financial authorisation and the "line of sight" initiative

21. We welcome the Government's positive response to our recommendation relating to improved alignment of parliamentary authorisation of public expenditure and the planning and control processes for such expenditure within Government. We look forward to examining progress of this "line of sight" initiative as it develops and, as part of this examination, we expect to consider whether the proposed timetable for implementation could be expedited. (Paragraph 61)

The Government welcomes the Committee's support for the "line of sight" initiative and confirms its commitment to consult widely on the detailed changes needed to achieve this major reform, including with Parliament.

Bringing together the processes for planning, Parliamentary approval and reporting of public spending on to a more consistent basis will be a major reform. It is an excellent opportunity to improve the transparency and accountability of government spending, and to achieve a substantial streamlining of the spending documents Government presents to Parliament, in a way that incentivises good value for money consistent with the fiscal rules and supports delivery of excellent public services.

The Government is adopting an inclusive approach to the project, both through extensive discussions with key stakeholders on the detailed changes needed to deliver reform, some of which may require primary legislation; and through the governance of the project, with all key stakeholders—including Parliament and the National Audit Office—represented on the Alignment Project Steering Committee.

In view of the complexity of this project, and the substantial prize at stake, the Government intends to adopt a measured approach to reform, to ensure that the outcome is robust and sustainable, and is accepted by all parties with an interest in government finance. Once a full and complete set of proposals has been agreed, the Government will review the implementation timetable to see if there is any scope for phasing.

The work of the Office of Government Commerce

The OGC's annual reporting mechanism

22. We view the failure of the Office of Government Commerce to publish an annual report in 2006–07 as unacceptable. We expect the Office to report on its performance on an annual basis in future. (Paragraph 69)

The Government does not consider that the Office of Government Commerce (OGC) has fallen short of accepted practice in its public reporting. As an office of HM Treasury, OGC is not a Department, an Executive Agency nor a Non-Departmental Public Body and, as such, has no constitutional or statutory requirement to publish its own Annual Report. Instead, formal reporting is provided on a regular annual basis through the channel of HM Treasury's own Departmental Report. OGC has on occasions opted to produce its own form of Annual Review, enabling it to supply a more detailed account to its stakeholders of its actions, achievements and forward priorities. OGC will produce such a document for 2007–08, which has been planned for publication following the end of the financial year to which it relates, to allow alignment of reporting figures. To demonstrate good business practice OGC's intention is to produce such a document on an annual basis going forward.

OGC Gateway reviews

23. We are concerned that the current arrangements for highlighting a project assessed by a Gateway review as “double red” fail to address the wider ranging issues regarding the continued failure of the Government properly to manage such a project. In response to this Report, we expect the Government to set out how projects that receive a “Double-red” Gateway Review will formally be held to account. (Paragraph 75)

The Government acknowledges the Committee's concerns. Currently, successive red OGC Gateway™ reviews trigger a letter from the Chief Executive of the OGC to the Permanent Secretary of the department responsible for the programme or project being reviewed. The letter is also copied to the Comptroller and Auditor General (C&AG). Periodically, the National Audit Office writes to the Chairman of the Public Accounts Committee with information on the consecutive red programmes and projects—including an update on actions, provided by the relevant departments.

As part of the wider OGC Strategic review, and in consultation with departments, OGC is currently looking at ways to enhance the Gateway process and other measures designed to increase the likelihood of a project's success. These changes include the introduction of a new overarching “delivery confidence” assessment as the overall review status. This is an assessment on the likelihood that a programme or project will be able to deliver its expected outcomes and benefits, whereas the current “RAG” status encompasses *ad hoc* recommendations on certain key issues of the project at a specific stage in its lifecycle, prioritised according to urgency. After a successful pilot, delivery confidence assessments are being introduced for all new High Risk Gateway reviews from 1 April 2008. As part of this work, OGC is considering the escalation process and whether, for example, it should be escalated to the Accounting Officer on the first red “delivery confidence” Gateway Review rather than on receipt of consecutive red Gateway Reviews, as at present. These changes aim to strengthen the independent scrutiny of projects and programmes across Government, providing key information on the their likelihood to deliver their expected outcomes and benefits.

24. Whilst we recognise that Gateway Reviews have been used as corrective instrument to realign a failing project, we would like to know what pre-emptive action the Government takes to ensure that risk management is properly utilised in the planning of projects subject to a Gateway Review. We will return to this issue in the Autumn. (Paragraph 76)

The Government acknowledges the Committee's interest in this area. OGC has worked with the National Audit Office and others to provide guidance and toolkits for policy makers in departments to help them identify, mitigate and manage risk, and to apply this in planning projects and programmes. The requirement on Senior Responsible Owners of new projects and programmes to complete a Risk Potential Assessment as a pre-requisite for a Gateway review reinforces the importance of early risk assessment. OGC is currently supporting the Treasury's work to improve departmental use of the

5-case model for business cases, as specified by the Green Book,⁶ which is addressed to those responsible for strategic and financial planning as well as Senior Responsible Owners and Project and Programme Directors. As part of its forward strategy, OGC is working with senior stakeholders in departments on ways of strengthening the application of project and programme management disciplines by policy delivery teams, and different means of providing better assurance of the deliverability of policy before a major project or programme is initiated.

The Treasury Group's performance against objectives

International objectives and measurement issue

25. We accept that a number of the outcomes set out in the Treasury's Public Service Agreements for the period from 2004 to 2008 and in its Departmental Strategic Objectives for the period from 2008 to 2011 are not subject to easy measurement. We also accept that the Treasury's own direct influence in relation to some of its international objectives will be necessarily limited. However, this reinforces the importance of external scrutiny and audit of Treasury performance. We note that the Treasury proposes to monitor its performance in influencing the policy debate and the international structures it uses to make progress on its objectives by taking as its milestones the outcomes of specified key events. We recommend that the Treasury arrange for independent monitoring to be included within assessments of those key international events relevant to the Treasury's international objectives. We further recommend that the Government clarify, in its response to this Report, whether data sources used for the purposes of measuring performance in relation to Departmental Strategic Objectives will be the subject of audit by the National Audit Office. (Paragraph 89)

The outcomes of EU and international finance ministers meetings, the annual debate on Lisbon by the Spring European Council summed up in Presidency Conclusions, the National Reform Programmes and the Commission's Annual Progress Report on Lisbon, will demonstrate whether the UK Treasury has influenced others in the right direction, by showing where the international consensus has changed and where new actions have been agreed. The publicly available communiqués and statements from these events already provide a transparent way of monitoring progress against this objective. The Treasury Group will also report against this in future Annual Reports and Accounts.

Under the new CSR framework, the data systems underlying all of the Government's PSA targets will be validated by the National Audit Office. Departmental Strategic Objectives (DSOs) form a new part of the performance management framework and are more broad in scope than the PSA set. DSOs extend transparency by increasing the extent to which previously internal objectives and indicators are published and reported against. The Treasury continues to work closely with the National Audit Office on the validation of PSA data systems and on how to take forward audit of DSO systems in the future.

6 The Green Book: Appraisal and Evaluation in Central Government, available from the Treasury website at www.hm-treasury.gov.uk

Regional economic growth

26. We recommend that, in its response to this Report, the Government confirm that progress in relation to the Treasury's PSA 6 target for regional growth will be measured in relation to the economic cycle which the Government expects to have concluded in 2007. We further recommend that, in reporting on the ending of that cycle, the Government includes an analysis of the economic cycle in each region of England as well as for the United Kingdom as a whole. (Paragraph 91)

The Government notes the Committee's recommendations. However, it will not be possible to measure regional trend growth until regional price deflators can be robustly estimated. The Office for National Statistics has been developing a methodology to estimate deflators and expects to have deflators available by 2009.

The economic cycle over which regional trend growth will be measured will be confirmed when the Treasury assesses that the cycle that started in 1997H1 has come to an end. As outlined in this year's Budget report (HC 388, page 153 paragraph B.45), although there is evidence that the economy passed through trend towards the end of 2006, it is too soon to assess whether the second half of 2006 marks the end of the cycle, with output judged to be close to trend at the end of 2007, growth forecast to slow to below trend rates in 2008 and 2009, and prospective National Accounts revisions.

The Government accepts that regional trend growth could potentially be more effectively measured with reference to the regional, rather than national, economic cycle. However, the evidence base for regional economic cycles is not fully developed, and the Government will be seeking to explore this further.

Child poverty

27. We recommend that the Government, in its response to this Report, set out its provisional analysis of the work currently being undertaken to analyse the reasons for low take-up of the childcare element of tax credit and the reasons for regional differences in take up. (Paragraph 94)

The Government's analysis does not indicate that take up of the childcare element of the Working Tax Credit (WTC) is low. There are now around 449,000 families claiming the childcare element of WTC. Nonetheless, we are seeking a better understanding of the reasons why some claimants do not take up this element, through customer focus groups and other initiatives.

Our analysis has shown that one of the best routes out of poverty is employment: the childcare element of WTC helps parents to afford good quality registered childcare by providing up to 80% of their weekly childcare costs to a maximum of £175 for families with one child and £300 for families with two or more children.

Whilst we want to encourage parents to make use of the childcare element where it is available, we recognise that different people have differing work patterns and childcare

needs, and therefore may not require formal childcare even though they would be entitled to claim money for using it. For example, a couple working shifts could alternate caring for their children, or a lone parent might have a part-time job while the child was at school.)

The Government also acknowledges that there are some regional differences in take-up of the childcare element, and that access to good quality, affordable childcare in certain regions, including London, can be more difficult. However, the London affordability pilots go some way to redressing this balance, and in addition to this the Government will be making more use of children's centres both to promote services that are available to parents and to identify those children in the most need of help and support.

The Treasury's new Departmental Strategic Objectives

28. We welcome the consultation that the Treasury has initiated with this Committee in relation to its Departmental Strategic Objectives for the period from 1 April 2008 to 31 March 2011, which we trust will serve as a precedent for the continued future development of the performance management framework. We welcome the inclusion of a performance indicator for the Treasury's work on supporting stable financial markets. We recommend that the Government, in its response to this Report, set out the timetable for the commissioning of a first assessment of UK financial stability and risk management against international comparisons. We further recommend that all such assessments be commissioned from an organisation outside Government, such as the International Monetary Fund, and be published. (Paragraph 96)

The Government welcomes the Committee's endorsement of the Treasury's approach to developing its Departmental Strategic Objectives and performance indicators, and notes the Committee's recommendations. Quantitative assessment of financial stability is more complicated than some other areas of policy: in particular, unlike monetary policy (for example), it is relatively difficult to assess performance by reference to a single indicator. We recognise the need to make progress in assessing financial stability, including assessments of the Government's contribution to it.

The Government agrees that international organisations, in particular the International Monetary Fund (IMF), have an important role to play in assessing financial stability and countries' policies towards it. The IMF already has a number of tools in place that cover policies towards the financial sector, and publishes regular reports on the economy of each of its members. The framework for this 'Article IV' surveillance was updated last year and now highlights the importance of looking at financial sector issues. The next consultation with the UK, which will include assessments relating to financial stability, is being undertaken during May 2008.

The Government will also consider whether there are other useful opportunities for international or other external assessment of UK financial stability, and has in particular proposed additional roles for the IMF to develop a new systemic vulnerability exercise

and to bring together important financial sector developments within its World Economic Outlook. The Government, with the Bank of England and the Financial Services Authority, is currently consulting on legislative and other matters related to financial stability, and will report back to Parliament on conclusions related to that consultation.

The Government also notes that the Bank of England (in its twice-yearly *Financial Stability Report*) and the Financial Services Authority (in its annual *Financial Risk Outlook*) each provide assessments and descriptions of risks and actions related to financial stability.

29. We recommend that the Government clarify, in its response to this Report, whether it is committed to maintaining net public sector debt below 40% of GDP in each and every year of the economic cycle that is expected to have begun in 2007. (Paragraph 97)

The Government will set out in the normal way the details of the fiscal position under the framework over the next cycle when it provides its view on the end of the current cycle.

HM Revenue and Customs

Capability Review

30. We are concerned that eight out of ten areas assessed under the Capability Review of HMRC require development. We expect HMRC to resolve these issues and we will scrutinise HMRC's progress in the autumn. (Paragraph 101)

The Government notes the Committee's concern. HM Revenue & Customs (HMRC) has responded positively to the findings of the Capability Review of December 2007 with an Implementation Plan to address all of the areas identified for development. The Senior Leadership team in HMRC is fully committed to a timetable of checkpoints, established with the Cabinet Office, to assure progress. These checkpoints are scheduled at 3, 6 and 12 month intervals following the publication date of the Review. Immediate priorities have been identified as part of the Implementation Plan to address urgent issues such as data security. A more detailed report on progress against all of the actions raised by the Review can be expected at the 6 month checkpoint, scheduled for July 2008.

Pay and bonuses

31. We recommend that in all future departmental accounts the payments of bonuses be listed alongside other remuneration. Whilst we accept that a rise in staff bonuses can be partly attributed to pay assimilation that occurred as a result of the merger of Inland Revenue and Her Majesty's Customs and Excise, we ask the Government to explain why, in a year of poor performance and ongoing headcount reductions, Senior Civil Service grade staff have received on average a 60% increase in their bonus payments. (Paragraph 110)

The Government accepts the Committee's recommendation, along with recommendation 12 above. HMRC's Departmental Report for 2007–08 will include details of the performance payments made to staff in 2007–08, including those paid to Senior Civil Servants.

The Government does not believe that the apparent 60% increase in average SCS performance payments provides a meaningful analysis of HMRC's SCS pay awards in 2006–07. Cabinet Office guidance has encouraged a greater shift towards the payment of non-consolidated performance awards in recent years, and a comparison across the Civil Service shows that HMRC awards are in line with those changes. The Senior Salaries Review Body sets the broader framework for annual performance pay across the civil service and HMRC works within that. Payments to Senior Civil Servants are reviewed and decided by the HMRC Pay Committee adhering to these guidelines which gave scope for 60-65% of HMRC SCS to receive a bonus in 2006–07.

In 2006–07, this increase in the value of payments occurred while there was a significant reduction in the number of people receiving awards. Further analysis by individual SCS grade also shows a more balanced picture. The vast majority of SCS members in HMRC (grades 1 and 1A) received around a third less than the average for their counterparts across the whole of the Senior Civil Service.

Payments made in 2006–07 rewarded performance over the preceding financial year. The Government does not accept that 2005–06 was a year of poor performance for HMRC. In its first year of merger, the new Department delivered a 7% increase in revenue collected, making significant progress against all of its PSA targets to close the tax gaps. HMRC paid out tax credit entitlements to 6 million families and child benefit in respect of over 12 million children, and launched the Child Trust Fund in January 2005, issuing 2.4 million vouchers by March 2006.

HMRC core objectives

32. The considerable reduction in Missing Trader Intra Community Fraud has not had a marked effect on the VAT loss figures. We recommend that the Government, in its response to this Report, explain how it has evaluated its 'success' in tackling MTIC fraud. We further recommended that the Government explain in that response why there has been slippage on the reduction of VAT losses and how it intends to improve its performance in this area. (Paragraph 113)

Estimates published in October 2007⁷ show that the impact of MTIC fraud on receipts was reduced by £1bn, from £2–3bn in 2005–06 to £1–2bn the following year. The VAT gap decreased from 15.5% to 14.2%—equivalent to £1.1bn additional receipts—over this period.

The Government evaluates its success in tackling MTIC fraud through:

- production of annual fraud estimates and in year monitoring of levels of trading associated with fraud;
- operational indicators on the effectiveness of aspects of the strategy;
- intelligence on the activities of known and suspected fraudsters and potential developments in the fraud; and
- success in defending decisions, pursuing fraudsters and recovering assets through the civil and criminal courts.

In addition to the annually published MTIC estimates noted by the Committee, statistics on the UK's overseas trade⁸ provide a useful in-year indicator of the scale and nature of the trading activity associated with MTIC fraud, which has fallen by over 97%.

HMRC is now beginning to move these resources back to deal with other areas of VAT fraud. This more flexible approach allows HMRC to deal with high profile issues as they arise, but the switch of resources to MTIC fraud may have slowed the reduction in the underlying VAT gap in other areas. HMRC intends to improve performance by continuing to strengthen to focus on high risk areas and by utilising a more refined range of responses designed to encourage compliance and minimise non-compliance, including:

- using the intelligence from recent MTIC activity to identify any mutations in the fraud;
- continuing to roll out the recommendations from the Review of Links with Large Businesses across a range of taxes, including VAT;

7 Measuring Indirect Tax Losses 2007, HM Revenue & Customs, October 2007, available from the HMRC website at www.hmrc.gov.uk

8 First Release: UK Trade, National Statistics, June 2007, available from the UK Statistics Authority website at www.statistics.gov.uk

- delivering a new approach to the application of VAT civil penalties, introduced to discourage evasion but also to ensure that the activity is heavily penalised once identified;
- providing a targeted response to serious non compliance across all taxes, using the newly formed cross-tax evasion teams; and
- continuing to identify and bank recoverable debt.

PSA 4: Self-assessment tax returns

33. We recommend that the Government, in its response to this Report, explain why the Self-Assessment filing rate has decreased if “significant resource” has been put into it, and clarify what other activities the Self-Assessment resource has been focused on. We further recommend that the Government explain what effect the online system crash in late January 2008 will have on HMRC’s assessment of performance against this PSA target in the 2008 Departmental Annual Report. (Paragraph 118)

HMRC acknowledges that more needs to be done to reverse the decline in rates of Self Assessment (SA) filing on time, and continues to put significant resource into supporting this. HMRC achieved the best ever financial receipts from SA at 31 January 2008—some £2 billion over forecast—with strong growth in SA online filing, up over 30% on the previous year. The volume of returns filed on time has remained fairly static at around 8.3 million for the last three years, even though the percentage has declined as the number of SA returns due has risen.

HMRC is currently undertaking analysis to establish more fully the reasons behind performance of the PSA Target 4 for SA returns filed on time. Initial indications are that there are a variety of reasons for this, including:

- SA Refinement, which removed some 1.6m of the more compliant customers from the SA customer base of 9.84 million in January 2005 (the baseline year for PSA Target 4), with the added benefit of reducing the administrative burden on them;
- the remaining SA population has continued to increase, growing from 9.08 million in January 2006 to 9.32m in January 2008, and a significant proportion of these new customers are generally less compliant than established customers;
- the relative impact of the SA penalty regime has reduced with time, as the penalty for late filing has remained at £100 since 1994—this will be included in the consultation on modernising and aligning penalties for late filing and late payment announced at Budget 2008, which will aim to increase the number of taxpayers who meet their obligations on time.

HMRC’s SA online service was partially disrupted on 31 January 2008 and also ran slowly on 1 February. This affected only those wishing to file online using HMRC’s free software for Self Assessment. Online filing for those using third party software—which

includes most agents—was unaffected. HMRC does not believe that this will have had a significant impact on the numbers of returns filed on time. To ensure customers were not unfairly penalised, HMRC announced that it would treat all returns filed online on 1 February as if they were filed on time on 31 January, and this will be reflected in the measurement of PSA Target 4. Despite the difficulties with the online services, 3.8 million returns were filed online this year (up from 2.9 million in 2006–07), 204,000 of which were filed on 31 January (up from 150,000 last year).

Overall issues for tax collection PSA targets

34. We are concerned that the current VAT gap, the direct tax and National Insurance underpayments, and the deterioration in the Self-Assessment filing performance may be linked to the headcount reduction under the efficiency programme. We expect the Government response to this Report to provide further evidence of the Government's position if the Government continues to maintain that this is not the case. We also recommend that the Government response explain how the Government will ensure that any further efficiency savings are not made at the cost of further deterioration in HMRC's performance. (Paragraph 119)

There has been no deterioration in performance in the areas covered by PSA Targets 1, 2 or 3 since their baseline years, while HMRC has met and exceeded its agreed efficiency targets for the years 2005–08. The latest indications are that the PSA targets for Direct Tax and National Insurance (target 3), and for Excise (PSA Target 2), will be met or be very close to being met at the March 2008 target date. As the Government's response to Recommendation 32 (above) sets out, HMRC has reduced the tax gap for VAT since 2002-03, but is now unlikely to meet the level set in PSA Target 1.

Performance against PSA Target 4 for SA filing is outlined in the Government's response to Recommendation 33, and there is no indication that HMRC's headcount reductions have been a factor in the reduced rate of taxpayer compliance in this area.

At Budget 2008, HMRC published its compliance strategy for direct and indirect taxes, showing how measures to tackle the 'tax gap' have already reduced annual underpayments of tax by over £5 billion compared to 5 years ago. There have been notable successes, including halving excise fraud, reducing MTIC fraud by over £1 billion in 2006–07, a more rapid response to artificial avoidance schemes and substantial recoveries of tax from initiatives like the offshore disclosure arrangements.⁹ Over the same period, receipts have risen from £398 billion in 2005–06 to £451.2 billion forecast for 2007–08.

Over the next 3 years HMRC will invest more than £1 billion in a co-ordinated series of changes. The Departmental transformation programme aims to reduce the tax gap and improve customer services while reducing the running costs of the Department. HMRC is also implementing a new risk assessment and operational response system, and

⁹ Protecting Tax Revenues, HM Revenue & Customs, March 2008, available from the HMRC website at www.hmrc.gov.uk

completing its review of powers, deterrents and safeguards—all designed to support compliant taxpayers while tackling fraud.

HMRC's Departmental Strategic Objectives for 2008–11, set out in the 2007 Comprehensive Spending Review, are to:

- improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled;
- improve customers' experience of HMRC and improve the UK business environment; and
- reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being.

In March 2008, HMRC published a list of the key indicators which are being developed to monitor performance against each of these objectives, within budgets that fall by 4.9 per cent per year in real terms. Further detail of these key performance indicators will be published in due course.

Objective II: the customer experience

35. We remain concerned that HMRC's headcount reductions, office closures and consequent move towards contact centres have proved a source of frustration to customers. We recommend that the Government, in its response to this Report, provide further information on the reasons for the slippage on PSA 5, and ask HMRC to publish the evaluation that it commissioned detailing the level of customer satisfaction with the new contact centres. (Paragraph 121)

HMRC reported slippage on PSA Target 5 because of the poor performance of the perception indicator measuring success at first point of contact. The two previous annual Customer Service Surveys (in 2005 and 2006) had shown that, though customers saw HMRC's service to be improving, that improvement was not seen to be as fast as it might be. This indicator is measured through HMRC's annual Customer Service Survey, across 13 customer groups involving around 19,000 telephone interviews. HMRC expects to publish the findings from its separate survey of customer satisfaction levels with Contact Centres later this year; 2006–07 results showed that overall satisfaction with the Helplines included in this survey had risen to 91%.

36. We note that HMRC plans to take no further action to improve performance under PSA 6 and therefore suggest that the description is changed from "very challenging" to "impossible", because it is clear that HMRC will fail to achieve the target. (Paragraph 122)

The Government notes the committee's comment. At the time of reporting, of the three indicators within PSA Target 6, HMRC's assessment was that two would be met. The third—concerning individuals' ease of understanding their SA Statements on Account, PAYE Coding Notices and Tax Credit Award Notices—is measured through the annual

Customer Service Survey (CSS). All planned improvements to these notices had been implemented by autumn 2007. Since the final CSS of the SR04 period was due to take place around autumn 2007, the time of reporting, it was clear that no new changes would have any impact on how customers viewed those notices. However, it was still considered likely that the 2007 survey would show improvements in this indicator, as experience had shown that customers often report lower ease of understanding in the first year after the introduction of changes to a form or notice than they do in subsequent years. Although highly unlikely, it was not considered impossible that HMRC would meet this element of PSA Target 6 at that stage. Results from the November 2007 survey—which will be published in HMRC's 2007–08 Departmental Report—show that, while missing the target, this indicator has now improved over the baseline level set in November 2004.

37. We recommend that the Government, in its response to this Report, explain why the target for 50% of VAT returns to be filed online has been postponed until 2010. Furthermore, the last three years have seen an increase to only 12% of VAT returns filed online, therefore we expect HMRC's plans to ensure that the 50% target is reached by this later date. (Paragraph 123)

The target for filing VAT returns online was set in 2005, at the same time that the Government asked Lord Carter of Coles' to advise on measures to further increase the use of HMRC's key online services, including VAT filing. Following the publication of Lord Carter's report,¹⁰ the Government planned to start implementing the phased requirements for VAT traders to file online from 2008, as he had recommended. Following consultation with stakeholders, the Government announced a revised and more gradual timetable for requiring businesses to file online at Budget 2007. VAT traders with an annual turnover over £100,000, and all newly registered traders, will now be required to submit their returns online and pay electronically from April 2010, at the earliest. In advance of this, and as Lord Carter also recommended, HMRC is enhancing its CT and VAT online services in consultation with customers and their agents, to ensure that they are robust, reliable and secure and meet customers' needs. Take-up is therefore now expected to reach 50% during 2010-11.

VAT registration

38. There have been considerable problems with delays in VAT registration for small businesses. We have repeatedly been assured that the headcount reductions and efficiency programme as a whole would not cause a decline in the quality of HMRC's services. We ask the Government to explain why there has been a deterioration of service in relation to VAT registrations and what measures it will take to bring HMRC back on course. (Paragraph 128)

Several factors combined to create the problems experienced in VAT Registration in the first half of 2007–08, including staffing issues associated with the consolidation of work

¹⁰ Review of HMRC Online Services, Lord Carter of Coles, March 2006, available from the HMRC website at www.hmrc.gov.uk

into two sites . However, an unanticipated additional number of applications followed PBR 2006 and Budget 2007 announcements of measures to tackle Managed Service Company schemes used to avoid paying employed levels of tax and National Insurance Contributions. In addition, HMRC's risk assessment was not as effectively targeted as it should have been, and some lack of robustness with IT systems also contributed.

HMRC put in place a VAT Registration Action Plan in July 2007, tackling each of these aspects: increasing staffing levels and devoting more existing staff to registration activity; reviewing and streamlining work processes; updating risk assessment parameters (and continuing to do so regularly to remain targeted against fraudsters, whose methods mutate); and stabilising and improving IT systems.

This Action Plan has delivered significant improvement: in December 2007, VAT registration performance for complete, accurate and low-risk cases (about 70% of all applications) returned to the target level of 70% in 14 days. Performance has continued to improve since then, with 83% of applications being processed in 14 days in March 2008. Performance for the higher-risk cases is also improving: by the summer HMRC expects to reach the target levels of an average time of 50 days—while continuing to maintain the robust anti-fraud checks on applicants that are essential for the protection of VAT revenues.

Objective III: Frontier protection

39. We recommend that the Government, in its response to this Report, explain why HMRC's 2007 Departmental Annual Report assesses PSA8 as "On course" when the Department has not reached the halfway point to achieve the March 2008 target and does not appear to have improved upon the 2006–07 Autumn Performance Report results when the same target was viewed as suffering from "Slippage". (Paragraph 130)

HMRC's PSA Target 8 comprises 4 sub-indicators, one of which includes 3 separate seizure regimes, each monitored by both number and weight of seizures. It is therefore difficult to make a like-for-like comparison of each of the sub-indicators.

Table 3 Table 3 sets out the trends and assessments for the figures shown in the 2007 Autumn Performance Report and at February 2008, the most recent month for which outturn data are available. Provisional outturns for March 2008 will be published in HMRC's 2007–08 Departmental Report.

Table 3: HMRC PSA Target 8 assessments

Sub Indicator	Autumn Performance Report 2007		February 2008	
	Trend	Assessment	Trend	Assessment
8.1 Seizures of cocaine	<u>Number:</u> 12% above target <u>Weight:</u> 28% above	Ahead	<u>Number:</u> 7% above target <u>Weight:</u> 17% above	Ahead
Seizures of heroin	<u>Number:</u> 20% below target <u>Weight:</u> 10% below	Below	<u>Number:</u> 5% above target <u>Weight:</u> 2% below target	On Course
Seizures of Products of Animal Origin (POAO)	<u>Number:</u> 4% below target <u>Weight:</u> 15% below	Below	<u>Number:</u> 20% below target <u>Weight:</u> 24% below	Below
8.2 % positive outcomes for requests for: – Interventions	On target 2% below target	On Course	1% above target 2% below target	On Course
8.3 Service Level Agreements in place on prohibited / restricted goods	On target	On Course	On target	On Course
8.4 Effectiveness of Cyclamen capability	<u>Performance:</u> 99.7% <u>Target:</u> 98.0%	Ahead	<u>Performance:</u> 99.8% <u>Target:</u> 98.0%	Ahead
Overall Assessment		On Course		On Course

In its 2007 Autumn Performance Report, HMRC took an overall view of the sub-indicators in assessing the overall performance for Target 8 to be 'on course'. HMRC noted that, although seizures of heroin were behind trajectory for the first 6 months of the year, the Department was working with the Serious Organised Crime Agency (SOCA) with the expectation that improved intelligence would help towards achieving the target by the end of March 2008. Seizures at February 2008 demonstrate the success of this work, and initial assessments indicate that the targets for both heroin and cocaine will be exceeded in 2007–08 overall.

The current target for POAO seizures is based on the outturns from 2005–06. In Autumn 2007, the fall in seizures when measured against the target was being viewed positively. Feedback from HMRC operations suggests that the fall has been due to enhanced air security measures, airline baggage restrictions, and greater compliance by passengers. This view is also supported by trends showing a decrease in average weight per seizure and a drop in seizures from countries which have been the focus of publicity campaigns. This target was also affected by an increase in the number of seizures in 2006–07 attributable to the increased number of inspections carried out on high risk traffic from Avian Influenza infected countries. HMRC is currently undertaking further analysis to form a conclusive view of how reported seizures of POAO are indicating improvements in the Department's capability to intervene at the frontier.

At Autumn 2006, Target 8 was also reported to be 'on course'. Although the weight of cocaine seized was slightly behind trajectory, all the other reported indicators were on course or ahead. Indicator 8.2 was not able to be assessed at that stage.

In its Departmental Report in Spring 2007, HMRC reported outturns for the 2006–07 year. The annual targets for heroin and cocaine had both been missed in that year, and Indicator 8.2 was still not able to be assessed. HMRC therefore reported ‘slippage’ against Target 8 at that stage.

The figures available for February 2008 confirm the assessment at Autumn 2007 that the overall performance of Target 8 was ‘on course’ to be met at the end of the 2007–08 year.

Tax credit administration

40. We are concerned that five years after the introduction of tax credits, the number of complaints referred to the Adjudicator’s office has significantly increased. We expect HMRC to make significant improvements to their administration of tax credits as a matter of urgency. (Paragraph 135)

The majority of complaints which reach the Adjudicator are cases where HMRC has confirmed its intention to recover an overpayment from a customer. HMRC’s accuracy in processing tax credits has increased from 78% in 2003–04 to 97% 2006–07, and consequently the number of overpayments written off because of official error has reduced. This in turn has led to an upward pressure on the number of cases going to the Adjudicator. However, the overall trend on complaints is positive: the total number of complaints received by HMRC’s Tax Credits Office (TCO) has fallen by a third from 2006–07 to 2007–08 and this should eventually have an effect on the number being referred to the Adjudicator. TCO has also begun work to improve its handling of complaints and disputed overpayments further to resolve cases at the earliest possible stage, reducing the need for customers to refer to the Adjudicator.

In their evidence to the Committee, HMRC officials explained the Government’s plans to revise the policy on recovering overpayments set out in HMRC’s Code of Practice 26 ‘*What happens if we have paid you too much tax credit?*’ (COP 26). Since then COP 26 has been replaced with a clearer test that will set out HMRC and customers’ responsibilities for checking factual information. These changes will mean a fairer balance of responsibilities between the customer and HMRC.

HMRC has also established a Tax Credits Transformation Programme to improve the services that families receive. It has run several pilot projects and introduced one new national service so far which allows couples whose relationship has broken down to initiate a new single claim in one phonecall. In Budget 2008, the Chancellor of the Exchequer announced a further package of measures to improve the way tax credits are delivered by HMRC.

Code of Practice 26

41. We welcome HMRC decision to revise code of practice 26 following our concerns raised in our Report in the administration of tax credits. We expect HMRC to continue to work closely with the Adjudicator to ensure that all tax credit guidance is clear and fair. (Paragraph 139)

A revised code of practice was published on HMRC's website on 31 January 2008. HMRC has continued to work closely in producing the final document with the Adjudicator, the Ombudsman, and the voluntary organisations who are represented on the Tax Credit Consultation Group.

HMRC's Departmental Strategic Objectives

42. We regret the failure of HM Revenue & Customs to consult this Committee about its new Departmental Strategic Objectives and the accompanying outcome indicators. We expect to assess the changes to HMRC's performance management framework when fuller information is available. (Paragraph 144)

HMRC worked closely with the Treasury on the development of its Departmental Strategic Objectives (DSOs) for 2005–08, and whilst it did not consult the Committee, HMRC made use of the extensive network of bodies with which it regularly consults, including agents and other intermediaries, businesses, charities, employers, media, and individual users.

HMRC's DSOs will be supported by a set of Key Performance Indicators. A list of these Indicators was published on HMRC's website in March 2008, and performance will be reported in future HMRC Departmental Reports. Detailed performance measures for each DSO indicator will be set out early in the CSR period and HMRC will continue to update the Committee as progress to develop its DSOs continues.

List of Reports from the Treasury Committee during the current Parliament

Session 2007–08

First Report	The 2007 Comprehensive Spending Review	HC 55
Second Report	The 2007 Pre-Budget Report	HC 54
Third Report	The Work of the Committee in 2007	HC 230
Fourth Report	Climate change and the Stern Review: the implications for Treasury policy	HC 231
Fifth Report	The run on the Rock	HC 56
Sixth Report	Financial Stability and Transparency	HC 371
Seventh Report	Administration and expenditure of the Chancellor's departments, 2006–07	HC 57
Eighth Report	Re-appointment of Dr Andrew Sentance to the Monetary Policy Committee	HC 454
Ninth Report	The 2008 Budget	HC 430
Tenth Report	Re-appointment of Mervyn King as Governor of the Bank of England	HC 524

Session 2006–07

First Report	Financial inclusion: the roles of the Government and the FSA, and financial capability	HC 53
Second Report	The 2006 Pre-Budget Report	HC 115
Third Report	Work of the Committee in 2005–06	HC 191
Fourth Report	Are you covered? Travel insurance and its regulation	HC 50
Fifth Report	The 2007 Budget	HC 389
Sixth Report	The 2007 Comprehensive Spending Review: prospects and processes	HC 279

Seventh Report	The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean	HC 569
Eighth Report	Progress on the efficiency programme in the Chancellor's department	HC 483
Ninth Report	Appointment of the Chair of the Statistics Board	HC 934
Tenth Report	Private equity	HC 567
Eleventh Report	Unclaimed assets within the financial system	HC 533
Twelfth Report	The Monetary Policy Committee of the Bank of England: ten years on	HC 299
Thirteenth Report	Financial inclusion follow-up: saving for all and shorter term saving products	HC 504
Fourteenth Report	Globalisation: prospects and policy responses	HC 90

Session 2005–06

First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595

Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	“Banking the unbanked”: banking services, the Post Office Card Account, and financial inclusion	HC 1717
