House of Commons

Treasury Committee

Pre-Budget Report 2009: Government Response to the Fourth Report from the Committee

Second Special Report of Session 2009–10

Ordered by the House of Commons to be printed 29 March 2010

HC 529
Published on 6 April 2010
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*) (Chair)
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 Michael Fallon MP (*Conservative, Sevenoaks*) (Chair, Sub-Committee)
Ms Sally Keeble MP (*Labour, Northampton North*)
Mr Andrew Love MP (*Labour, Edmonton*)
John Mann MP *(Labour, Bassetlaw)*
Mr James Plaskitt MP (*Labour, Warwick and Leamington)*
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)
Mr Mark Todd MP (*Labour, South Derbyshire*)
Mr Andrew Tyrie MP *(Conservative, Chichester)*
Sir 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.

Committee staff

The current staff of the Committee are Eve Samson (Clerk), Andrew Griffiths (Second Clerk and Clerk of the Sub-Committee), Adam Wales, and Jay Sheth, (Committee Specialists), Phil Jones (Senior Committee Assistant), Caroline McElwee (Committee Assistant), Gabrielle Henderson (Committee Support Assistant) 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.

Second Special Report

The Treasury Committee published its Fourth Report of Session 2009–10, *Pre-Budget Report 2009*, on 6 January 2010, as House of Commons Paper No. 180. The Government response was received on 26 March 2010, and is published as an appendix to this Special Report.

The Government response appears in plain text and the Committee's conclusions and recommendations are in bold text.

Appendix: Government response

Macroeconomy

The Treasury's forecast in the Pre–Budget Report is for the economy to register growth of 1.5% in 2010 before going on to achieve much stronger growth of 3.5% in 2011 and 2012. There is, however, considerable scepticism among economists around the Government's growth forecasts for 2011–12. (Paragraph 11)

The Treasury's economic forecasts are conditioned on a set of assumptions. The 2009 Pre-Budget Report economic forecast assumed that the G20 authorities continue to deliver on policy commitments, which are effective, so that the world economy was forecast to grow by 3¼ per cent in 2010, picking up further to 4¼ per cent in 2011 and 2012; that the Government's financial sector interventions continued to improve the flow of credit, so that the volume of credit available supported recovery; and the shape of the recovery in the UK economy embodied an orderly adjustment in the sectoral financial balances and a rebalancing between domestic and external demand.

As at Budget 2009, the extent of macroeconomic stimulus, and the assumption that this stimulus progressively takes hold, underpinned the 2009 Pre-Budget Report forecast for a recovery that is broadly in line with that seen in the 1980s and 1990s. It is usual for GDP growth to pick up in a recovery as spare capacity is brought back into productive use. For example, GDP growth was strong in the five years from 1982 and again in the five years from 1993, averaging 3¼ per cent a year, above the average of independent forecasts at that time. Indeed, the rate at which the output gap was assumed to close over the projection period is comparable to the rate observed following the recession of the early 1990s, and slightly slower than the rate observed following the recession of the early 1980s.

The Government has set out its latest forecast in Budget 2010.

Growth in private consumption is expected to provide a significant part of future GDP growth. The household saving rate is also expected to rise further, and then stabilise at a higher level than that seen in recent history. It should be noted that the period before

the current crisis was marked by a steady decline in the household saving rate. An increase in the household saving rate above its pre-crisis level will be an essential part of the economic rebalancing. (Paragraph 20)

The Pre-Budget Report reported that the saving ratio had risen from a low of –½ per cent in the first quarter of 2008, to over 5½ per cent in the second quarter of 2009. Data released since the Pre-Budget Report was published shows that the saving ratio rose to 8.6 per cent in the third quarter of 2009—its highest since 1998. As set out in the Pre-Budget Report, estimates of the saving ratio can be revised quite heavily as new data on income and spending become available. The pace and extent of adjustment in the saving ratio currently reported are subject to considerable uncertainty. However, it seems clear that a significant adjustment is underway. As part of the recovery it is important that households continue to repair their balance sheets that have been damaged to some extent, by falling asset prices. As such, some increase in the saving ratio will be necessary and is expected in 2010. In the longer term, the saving ratio is expected to settle closer to long-run averages.

It remains a risk that households cut consumption more aggressively to drive a more rapid adjustment in net assets. This would push the saving ratio up further and could undermine aggregate demand and wider confidence in the recovery. The substantial macroeconomic stimulus that remains in place is expected to smooth the likely pace of deleveraging in the household sector. Low interest rates have reduced the debt burden and easier credit conditions should help to smooth the adjustment in household consumption. The comparatively stronger labour market performance in this recession should also ease the increase in precautionary savings. This should allow households to repair balance sheets while allowing consumption to grow at a rate closer to that of overall GDP in 2011 and 2012.

The recession appears so far to have had substantially less impact on the labour market than might have been feared. There seem to be several reasons for this including the structure of the economy, the flexibility of the labour market, some Government measures and employers' attempts to retain skilled labour. However, the Government must remain vigilant to the potential that there may be further weakening in the labour market above that which it has forecast, which would of course impact on the public finances. There also needs to be careful analysis of the changes in the labour market during the recession, to understand the movements between full-time and part-time employment, especially differential employment rates for men and women, as well as changes in rates of pay. (Paragraph 23)

Employment has held up well compared to the labour market performance in the early 1990s recession and expectations at the start of this recession. However, the Government remains aware that unemployment could rise further and have a negative impact on the public finances. This risk is partly mitigated by use of an NAO audited assumption for the projection of public spending on Jobseeker's Allowance, as the assumption is more pessimistic than HM Treasury's projection for the claimant count as published in the 2009 Pre-Budget Report.

Alongside Government action, changes in the labour market over the recession have also been driven by flexible reactions from firms and employees. In some instances firms and employees have agreed shorter working hours, pay freezes in nominal terms and reducing non-wage labour costs. Individuals in the labour market have taken part-time employment as an alternative to unemployment. These changes are likely to moderate as the economy recovers, and HM Treasury will monitor future developments closely.

We remain concerned over the levels of youth unemployment. While the story for the overall labour market has been more positive than might have been initially hoped at the start of recession, the young have, as we feared, been badly hit. We note the Government's measures in this area, and will continue to monitor their impact. (Paragraph 26)

The Government shares the Committee's concerns over levels of youth unemployment. To this end, the Pre-Budget Report announced that the Young Person's Guarantee, providing a guaranteed job, work placement or training, would be brought forward to six months of a Jobseeker's Allowance claim for all young people aged 18–24. From April, participation will be mandatory from 10 months unemployment, to prevent long-term detachment from the labour market. Budget 2010 announced that the Government will go further, and extending this support after March 2011 to continue to provide support for young people as the labour market recovers.

This constitutes a major response to youth unemployment, alongside the additional 15,000 frontline staff in Jobcentre Plus, £40 million of additional support for young people announced last year through Backing Young Britain, and the offer to all 16 and 17 year olds of the January Guarantee in 2010. Furthermore the Pre-Budget Report announced an additional £202m in 2010–11 to ensure the September Guarantee of a place in education or training for every 16 and 17 year old who wants one is met in full. The Government will continue to monitor the effectiveness of these policies.

House prices appear to have stabilised, but at an historically high price to earnings ratio. We are concerned that such a position is potentially unsustainable, given that monetary policy will eventually tighten. We recommend that the Treasury undertake further work on the sensitivity of the housing market to future employment and interest rate movements, and report back at the time of the next Budget. (Paragraph 30)

There has been a significant fall in the house price to earnings ratio over the past two years. Despite this, it remains above the long-run average house price to earnings ratio according to most measures. However, this does not imply that there is an imminent risk of further instability in house prices. Firstly, house price to earnings ratios can spend significant periods either above or below their average level. Secondly, there are a number of good reasons why there could be a higher equilibrium house price to earnings ratio than in the more distant past. For example, the housing market has been characterised by constrained supply conditions while demographic change has led to increased demand for homes, which would lead to a higher house price to earnings ratio. Interest rates have also been at historically low levels which means that interest payments remain low as a share of income despite the level of household debt. There is further discussion of recent Treasury work on these issues in Budget 2010.

The Government recognises that affordability for buyers remains a significant issue. This is why the Government announced in the 2009 Pre-Budget Report that it will make over £150 million investment available for HomeBuy Direct in 2010–11 to help up to an additional 3,000 first-time buyers purchase a new build property.

Although the housing market has stabilised over the past nine months the Government remains vigilant to the impact of potential developments in the labour market and future interest rate rises. Actual outturns for unemployment and repossessions have thus far been lower than was expected by many external forecasters. Total repossessions for 2009, were over a third less than had been originally forecast by the Council of Mortgage Lender's (CML) and repossessions have also been around half of what they were in the early 1990s.

The PBR economic forecast and ongoing economic assessment is informed by market expectations for interest rates that suggest they will remain low for some time and then only rise gradually in the medium term. As such it is unlikely that there will be a pronounced increase in mortgage rates. But given the increasing proportion of the stock of mortgages that are tracker and standard variable rate mortgages, the housing market is likely to be sensitive to interest rate changes. Due to these risks, targeted schemes like Mortgage Rescue Scheme (MRS) and Homeowner Mortgage Support (HMS) will continue to provide a safety net for homeowners.

Budget 2010 announces a two year stamp duty land tax relieve for first-time buyers, for residential property purchases up to £250,000.

The Committee welcomes the fact that repossessions have been far lower than expected. However, we recommend that the Treasury proceeds cautiously over the timing and removal of Government support in this area. (Paragraph 34)

Preventing repossessions remains a high priority for Government. The Government has put in place advice and help at every stage of the process for those who are at risk of repossession. There are protocols in place, largely supported by legislation, to ensure repossession is only ever a last resort and safety net schemes to provide a backstop support to struggling homeowners. Over 330,000 homeowners have received help and advice with their mortgage since April 2008, including 220,000 homeowners who have benefited from additional help through the Support for Mortgage Interest scheme and 110,000 homeowners who have received information and advice from their local authority or a debt advice agency. The Council of Mortgage Lenders (CML) has published final figures for repossessions in 2009, showing there were 46,000 repossessions in total. While any repossession is regrettable, this is over a third less than had been originally forecast.

PBR 2009 and Budget 2010 announced further extensions of the freeze in the Standard Interest Rate used to calculate Support for Mortgage Interest. This will now be maintained at 6.08 per cent until 31st December 2010. This increased support will continue to benefit around 220,000 homeowners during the recovery. We will keep the SMI scheme under review to ensure that it remains appropriately targeted as housing market conditions improve.

The picture on bank lending remains uncertain, to say the least. While we do not want to return to the times of easy credit, the Government must remain aware of the risk that lending will not support renewed private sector growth as the public sector retrenches. The Treasury have assured us that they remain vigilant in this area, and we will continue to monitor their work. (Paragraph 37)

Maintaining the flow of finance to creditworthy businesses and individuals is essential to growth and prosperity. In addition to the major interventions to stabilise the financial system, the Government has taken a number of steps to support responsible lending and to promote best practice in the treatment of borrowers these include:

- the lending commitments agreed with RBS and Lloyds Banking Group to help ensure lending is available for creditworthy individuals and businesses;
- the Customer Charters on business bank lending which all of the major banks have signed up to and cover over 98% of all businesses;
- the Enterprise Finance Guarantee which has helped 7,500 businesses have access to finance since its creation in January 2009;
- the creation of a new statutory Small Business Credit Adjudicator that will work closely with a newly enhanced Business Link Financial Intermediary Service in order to ensure that SMEs are treated fairly when applying to their bank for finance; and
- launching a discussion paper to consider the development of non-bank lending channels for UK businesses in the medium term, seeking views from both investors and businesses.

The Public Finances

We appreciate that deciding the right time for fiscal consolidation requires making a fine judgement about the resilience of the recovery. As we have explored earlier, there is currently considerable uncertainty in the economic outlook; and any fiscal consolidation will have to function in that context. It may be difficult for any current consolidation plan to command universal support. It will therefore be very important to add greater detail and clarity to the plan sooner rather than later. (Paragraph 45)

We have previously stated that a plan to restore the health of the public finances must deal with the structural deficit. We acknowledge the Treasury aims to cut the deficit from 9% of GDP to 3.6% of GDP in 4 years. However we note that although the Treasury believe the Pre-Budget Report contains sufficient detail about the way in which the structural deficit would be reduced, our expert witnesses all criticised the document for not providing enough information about how this will be achieved. (Paragraph 52)

Government has set out a clear plan to halve the deficit as a share of GDP by 2013–14, which has been enshrined in law through the Fiscal Responsibility Act.The Government has also set fiscal plans, in secondary legislation, for borrowing to be 5.5 per cent of GDP or less in 2013–14.

Based on fiscal and economic projections set out in the 2009 Pre-Budget Report, these plans entail a reduction in cyclically-adjusted borrowing from 9 per cent of GDP in 2009–10 to 3.1 per cent of GDP in 2014–15. These plans are consistent with debt falling as a share of GDP by 2015–16. The Government has since published updated economic forecasts and fiscal plans in Budget 2010. Based on these, Budget 2010 forecasts a reduction in the cyclically-adjusted borrowing from 8.4 per cent of GDP in 2009–10 to 2.5 per cent of GDP in 2014–15.

Building on announcements to date, Budget 2010 and the forthcoming Finance Bill make further progress in setting out the detail of the Government fiscal consolidation plan. On tax, Budget 2010 announces further measures that will reduce borrowing by £1bn in 2013-14.

On spending, the 2009 Pre-Budget Report announced that the Government will deliver efficiency and other cross-cutting savings of £11bn a year by 2012–13. Budget 2010 has announced that these £11bn of savings have now been identified department by department, and sets out further details on how they will be delivered. Budget 2010 also gives further details on how the Government will deliver £5bn of savings by 2012–13 and outlines the next steps in reforming public sector pay. The Government will set out further plans when the next Spending Review is published later this year.

The Treasury use what they describe as cautious assumptions in the public finances forecasts. Some economists consider the structural deficit forecast is overly optimistic, many are concerned about the large uncertainties surrounding this forecast in particular and some doubt whether sufficient attention has been given to the structural deficit existing before the recession. Future Budgets and PBRs should attempt to quantify the downside risks around the structural deficit forecast. (Paragraph 53)

The Government recognises that there is considerable uncertainty in the current environment around estimates of the structural position of the public finances, as set out in paragraph 2.59 of the 2009 Pre-Budget Report and paragraph 2.48 of Budget 2010. The fiscal projections reflect a realistic view of the position of the public finances by incorporating some cautious assumptions. In particular, the fiscal forecasts are based on a downward adjustment of over 5 per cent to the economy's trend level of output in light of the global financial shock. A detailed discussion of the uncertainties around the cyclical position of the economy is provided in Annex A of the Pre-Budget Report. Retrospective analysis of the Government’s fiscal forecasting performance is published in the *End of year fiscal report* alongside the Pre-Budget Report.

We acknowledge the considerable uncertainties which affect the PBR. Those uncertainties are both political and economic. While some may think that a Spending

Review should have been carried out before the next election, others will consider it is correct to defer such an exercise until there is at least some political certainty. The absence of a Spending Review, means that from 2011–12 the UK may temporarily return to an annual expenditure cycle. Should this happen, we urge colleagues on other Departmental Committees to scrutinise their department's financial documents particularly closely. (Paragraph 58)

Given the considerable economic uncertainty, the Pre-Budget Report made clear that now is not the right time to set Budgets beyond 2011. The absence of a Spending Review does not imply a temporary return to an annual expenditure cycle; decisions about the period over which Budgets will be set will be taken in the normal way as part of a Spending Review process. Irrespective of the duration of the Spending Review cycle, we welcome the Committee's recommendation that Departmental Committees put further emphasis on scrutiny of departmental budgets.

There is a sense that the Treasury are using uncertainty to suit themselves. Despite substantial uncertainties they still produce some forecasts out to 2014–15 and illustrative projections out to 2017–18. We can see no good reason for the Treasury failing to produce illustrative figures for future expenditure, at least the projected split between DEL and AME. We recognise that there will be uncertainty in these figures, but they are produced as part of the Spending Review process so there appears to be no argument of principle against their publication. The Fiscal Responsibility Bill will tie the Government into a fixed timescale for managing the deficit, and this will require close parliamentary monitoring. (Paragraph 59)

The 2009 Pre-Budget Report followed the usual convention which has been in place since the first Comprehensive Spending Review in 1998, of publishing firm three-year Departmental Expenditure Limits (DEL) and a forecast of Annually Managed Expenditure (AME) for each year of the latest spending review period. Beyond this period, the convention is to present numbers in terms of the overall level of spending (TME) broken down into public sector current expenditure (PSCE) and public sector net investment (PSNI).

The Government does not publish an AME forecast beyond the Spending Review period because it is sensitive to movements in a number of economic determinants such as inflation, claimant count unemployment and interest rates. DEL is only set within spending reviews and beyond the current spending review period no Departmental Expenditure Limits—neither at the level of individual departments nor in aggregate—have been set.

It is generally agreed that the Spending Review process has introduced more transparency and certainty about medium term plans. The Liaison Committee, in cooperation with this and other Select Committees, has already produced proposals to improve the way in which the House and its committees can scrutinise these medium term plans, linking the process to the system of annual authorisation of expenditure. These proposals have been endorsed by the House of Commons Reform Select Committee. We look forward to these proposals being debated and urge continuous

dialogue between the Government and the House of Commons on how to ensure the Spending Review is timed in a way which allows effective scrutiny. (Paragraph 65)

As the Committee acknowledge, the Government's introduction of a three-year Spending Review cycle has given frontline organisations more certainty with which to plan and manage their expenditure. The House will have an opportunity to consider proposals to improve the way in which the House and its committees can scrutinise spending plans when they consider the Liaison Committee's 2nd Report Session 2008–09 "*Financial Scrutiny: Parliamentary Control over Government Budgets*" (HC 804).

However we are pleased to acknowledge that the Government has already taken one step to improve financial scrutiny. In our Report on last year's PBR we recommended that "the Government makes available a full day's debate for the Pre-Budget Report." The Government has now agreed to our request, and has announced a full day's debate, with sufficient notice to enable us to prepare and publish this Report before it takes place. (Paragraph 66)

The Government is committed to parliamentary oversight of fiscal policy making and the fiscal cycle, and welcomes the opportunity for full debate.

Both the Chancellor and Mr Ramsden offered reassurance on future demand for UK gilts. We also note the methods now employed by the Government to reduce the risk of uncovered auctions, such as syndication, mini-tenders and top-up auctions. We are pleased that there have been no more additional uncovered auctions since that reported in the Committee report on Budget 2009. However, there remains the risk that the combination of the large amount of gilt auctions planned in 2010–11 and the cessation of Quantitative Easing will result in an excessive supply of UK gilts onto the market at a time when other governments will be offering similar products, with the possible result that auctions are uncovered and yields increase. (Paragraph 74)

The Government is confident that financing remits will continue to be delivered successfully. The UK benefits from a diversified investor base and continuing strong structural demand from the pensions and insurance sector for long and index-linked gilts; demand from investors overseas continues to be strong and the UK remains the benchmark borrower in its own market and currency.

Uncovered auctions are a normal part of the auction process and simply reflect the market dynamics of supply and demand for the individual gilt at the specific time of the auction. A single uncovered auction does not suggest falling demand for gilts in general. Supplementary issuance methods are being used to help facilitate issuance of gilts with the highest execution risk and have been deployed successfully in 2009–10.

The Monetary Policy Committee (MPC) will decide the scale and timing of any asset sales, but the Bank of England will consult closely with the Debt Management Office to minimise disruption to the gilt market. In his letter to the Chancellor on 17 February 2009, the Governor said that the MPC would have due regard for the impact of those sales on the Government's debt management operations.

The Committee understands the views given by Mr Ramsden that credit ratings are often a lagging and not a leading indicator, and that in many cases a downgrade will already be priced into the market prior to a rating reduction. (Paragraph 80)

The Committee notes that debt interest forecasts depend on a number of assumptions, and are necessarily an estimate. However, the Bank of England publishes forecasts showing the possible range of rates; we recommend that the Treasury consider whether publishing information about debt interest on a similar basis would be useful. (Paragraph 86)

Treasury practice is not to publish an AME forecast, of which debt interest is a component, beyond the current Spending Review period. The PBR set out that the debt interest forecast is based on market expectations of interest rates, in line with NAO audit requirements.

The potential losses from the financial interventions have changed in both size and nature since the Budget 2009. This has been due to the revision of the APS and the fact that Lloyds Banking Group are no longer participants in the scheme. However the Committee notes that the reduction in the possible loss is highly dependent upon the claim that RBS will not need to use the APS. We understand the need for certain market sensitive information to remain confidential, but given the large financial implications if RBS did have to use the APS, we recommend the Government reports on its assessment of the potential losses from the APS in both Pre-Budget and Budget reports in future. (Paragraph 89)

The Treasury is putting in place an extensive reporting framework for the Asset Protection Scheme. It has already committed to update its assessment of the overall expected losses at each pre-Budget and Budget, and to make equivalent updates to its accounting treatment when producing its future annual report and accounts through the parliamentary estimates process. The annual report of the Asset Protection Agency will also report on the scheme in detail.

The Committee understands the rationale for using a different accounting treatment for national accounts than that used for departmental accounts. However, the accounting rules chosen mean that while PFI contracts will show on balance sheet in departmental accounts, prepared under IFRS, they will not appear in the calculations of net debt in whole of government accounts. We recommend that future Pre-Budget and Budget Reports include a reconciliation between Public Sector Net Debt calculated on a national accounts basis, and the same figure calculated using the IFRS principles which apply to departmental accounts. (Paragraph 95)

Whole of Government Accounts, to be published for 2009/10, will reflect PFI contracts assessed on an IFRS basis. This information is expected to be published around spring 2011. The Treasury accepts that Committee's recommendation that a reconciliation between National Accounts debt measures and WGA on an IFRS basis should be provided. We will look to do this as part of the WGA publication in the first instance, and will consider options to include within Budgets and Pre-Budget Reports once WGA data is available. The Treasury will also publish on its website a list of PFI projects showing their balance sheet treatment for resource accounts and for national accounts.

Other Topics

We remain convinced of the continued importance of the commitment to eradicate child poverty, notwithstanding the limited progress that has been made to date, and the UK's changing economic circumstances. We recommend that the Government clearly sets out the steps it proposes to take to move nearer to its 2010–11 target in the time available and to achieve the eradication of child poverty by 2020. (Paragraph 102)

The Government's efforts over the last decade have had a significant impact on child poverty. In the nineties the UK had one of the highest relative child poverty rates in the industrialized world after child poverty more than doubled between 1979 and 1997. This trend has been reversed. In line with projections by the Institute of Fiscal Studies, the Government projects that the number of children in relative poverty will decline to 2.3 million children in 2010-11, a fall of around 1 million since 1998-99.

The Government remains committed to the sustainable eradication of child poverty as demonstrated by the Child Poverty Act. The Act requires the Government to publish its strategy on how it will achieve its 2020 target within 12 months. This will be updated every three years, and in doing so, the Government must consult with the expert Child Poverty Commission, also established by the Child Poverty Act.

To inform this strategy, the Government published *Ending Child Poverty: Mapping the Route to 2020* alongside Budget 2010. This paper uses modelling to set out ways in which child poverty can be reduced and the potential impact various outcomes could have. The modelling indicates that increases in employment and reductions in in-work poverty have the potential to significantly reduce child poverty and highlights that the sustainable eradication of child poverty will depend on this being complemented by improvements in children's life chances. The paper also sets out how securing economic recovery and growth, including through fiscal consolidation, is essential in reducing child poverty in line with the target.

Budget 2010 builds on previously announced support to help parents. This includes the impact of measures coming into effect from April 2010—such as moving from £20 to a full disregard for child maintenance in income-related benefits, the extension of Free School Meals to primary school pupils from low-income working households, and over indexation of tax credits, which in total are expected to lift around 100,000 children out of poverty.

Budget also announced the introduction of further additional support of £4 per week from April 2012 for parents of children aged 1 and 2 years old through the child element of the Child Tax Credit, which will benefit approximately 900,000 families.

One of the Government's key strategic principles is that work is the best route out of poverty. To support parents enter work, Budget 2010 announced further support for parents with childcare by simplifying and improving the responsiveness of the childcare element of the Working Tax Credit to allow parents with short-term childcare needs to receive payments when they incur them, such as during school holidays.

As set out in *Ending Child Poverty: Mapping the Route to 2020*, enabling second earners in some families to take up paid employment will be vital in tackling in-work poverty. In 2007-08 there were around 700,000 children living in poor couple families where only one adult was in work. Budget 2010 therefore outlined the Government's commitment to considering further options to improve the incentives and support available to encourage second earners to enter and progress in the labour market.

We reiterate our previous recommendation that, at a time when the public sector will be pressed to make further savings, it is vital that any savings made are properly recognised and quantified. We also stress again the importance of establishing robust data collection processes at the start of future efficiency programmes to assist evaluation. (Paragraph 110)

As stated in reply to the Committee's report *Evaluating the Efficiency Programme*[1] robust data collection processes were established before the start of the 2007 Comprehensive Spending Review (CSR) period. Guidance on data collection and scrutiny were distributed to departments before the 2007 CSR period began and baselines against which savings would be measured were agreed as part of departmental settlements.

At the beginning of the 2007 CSR value for money programme each department published a Delivery Agreement setting out how they planned to achieve their proposed savings. Departments report twice annually on progress against their targets in their Annual Statements and Autumn Performance Reports.

In addition to internal auditing and regular Treasury monitoring, the National Audit Office will provide external scrutiny by auditing claimed savings on a departmental basis.

To further improve the data available for future efficiency programmes Treasury led a benchmarking exercise that began in Summer 2009 and collected data on back office performance across all of central government and Arm's Length Bodies with head-counts of over 250. This information was published as part of *Smarter Government* and will drive performance improvements through increased accountability and transparency.

1 *Evaluating the Efficiency Programme: Government Response to the Thirteenth Report from the Committee*, Ninth Special Report of the Session 2008-09, House of Commons Treasury Committee. October 2009.

Finally Budget 2010 provides further details about the savings announced in the 2009 Pre-Budget Report, setting out how departments will deliver cross cutting savings of £11bn and further details of how tough choices worth £5bn will be made. Alongside Budget, departments set out their overall contribution towards the cross cutting savings of £11bn and further details of how these savings will be delivered.

Independent evaluation as well as the communication of best practice will become even more important if, as suggested by Robert Chote, efficiency savings will be harder to achieve in future. We therefore call again on the Government, in the interests of transparency and communicating best practice, to commit to publishing all information relating to efficiency in one document. (Paragraph 111)

The Government has provided regular updates on efficiency programmes at Budgets and Pre-Budget Reports. Where programmes have reached significant milestones the Government has published dedicated documents, for example the *2009 Value for money update.*[2] Individual departments are in the middle of delivering their own 2007 CSR savings and regularly report progress in Annual Statements and Autumn Performance reports.

In December, the Government went further than ever before by publishing benchmarking data across the whole of central government, covering 153 organisations and over 770,000 employees. The document was titled *Benchmarking the back office*[3] and was published alongside *Smarter Government*. The Government will continue to publish this data annually and over time the quality of the data and metrics will improve, but more importantly it will show how the standards are improving whilst efficiencies are being delivered.

Finally, we re-confirm our support for Ministerial Champions of value for money within each department, but observe again the need for appropriate training and guidance to help them fulfil this role. We note the "big challenge" of building an internal capability to deliver efficiency savings and major change and seek a summary of the method to be employed in achieving this. (Paragraph 112)

The Government continues to focus on driving forward value-for-money matters, and Ministerial sponsorship and focus remains important. Each individual Department supports its Value for Money minister through briefings, and access to performance information and updates. In respect of cross-Departmental areas, such as the use of benchmarking to drive performance improvement, the VFM Ministers meetings provide a focal point for both discussion and questions. This has been augmented, to date, through the circulation of information suggestions and performance information – typically from the Chief Secretary to the Treasury to both the group of VFM Ministers and to Secretaries of State, when appropriate.

2 2009 Value for money update, HM Treasury, April 2009.

3 *Benchmarking the back office: Central government*, HM Government, December 2009.

We welcome the Chancellor's assurance that asset sales will not take place if the Government does not expect a good return. The sales should anyway take place within a strategy which defines the purpose of the retention of assets and the value in achieving policy goals of any sale. We will monitor, with other Committees, the extent to which the implementation of the Government's asset portfolio plans observes this long-term value for money principle. (Paragraph 115)

The Government is clear that its programme of asset sales will be conducted in order to achieve the maximum possible value for the taxpayer. Given that this is to some degree dependent on economic and market sentiment, timing will therefore be a significant factor for each of the opportunities addressed here. Individual assets will only be sold if such a sale is compatible with the Government's policy goals for the asset and services provided by the asset. The Operational Efficiency Programme's assets portfolio, published by Government on 7 December (<http://www.hmg.gov.uk/media/52715/oep-asset portfolio.pdf>), defined the public policy objectives for a number of assets, which will need to be borne in mind if and when a transaction is proposed.

The Government considers that the purpose of the tax on bank bonuses is to change behaviour so that banks increase their capital, rather than providing large discretionary payments to employees. We urge the Treasury Committee in the next Parliament to assess how effective it has been in this, and to examine the effectiveness of any regime introduced by the Financial Services Bill, in terms both of its success in altering bank behaviour, and of its effect on the competitiveness of the UK financial sector. (Paragraph 124)