



House of Commons
Treasury Committee

Government Response to the Committee's Seventh Report on The 2003 Budget (HC 652)

Seventh Special Report
of Session 2002–03

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The Treasury Committee

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

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Seventh Special Report

On 16 May 2003, the Treasury Committee published its Seventh Report, *The 2003 Budget*, as House of Commons Paper No. 652. We have now received a response from the Government (dated 15 July 2003) which is appended below.

APPENDIX: MEMORANDUM FROM HM TREASURY

The Government notes the conclusions of the Treasury Committee's report on Budget 2003.

Announcement of the Budget date

1. We reiterate our view that, in the interests of openness, it is important for the Chancellor to announce the Budget statement as far in advance as possible (at least two months). While we recognise that the Iraq war may have made the process difficult this year, the amount of notice given should not be allowed to set a precedent for future years. (Paragraph 5)

The Government will announce the date of the Budget at the earliest convenient opportunity. However, it may not prove possible to give two months notice of Budget Day.

The economy: the recent past

2. As the OECD recently highlighted, "the UK economy has so far shown greater resilience in weathering the downturn than any other major European economy". In spite of undershooting the Treasury's growth forecast in the Budget 2002, in achieving growth of 1.8% in 2002 the UK economy performed better than most of its eurozone counterparts. (Paragraph 6)

The Government's macroeconomic framework is designed to maintain long-term economic stability and has continued to perform well against global challenges and risks. Inflation has remained close to target, allowing the Monetary Policy Committee to reduce interest rates to their lowest level in almost fifty years. Fiscal policy has continued to complement monetary policy in supporting growth.

3. The fall in business investment in 2002-03, if it was sustained, would be of particular concern given its potential impact on UK productivity. (Paragraph 7)

Investment in physical capital is vital to support a flexible and productive economy and, in the past, the low capital stock of firms and under-investment in public infrastructure in the UK has impaired the UK's productivity performance. The Government has taken important steps to reverse this trend, including reductions in corporation tax to its lowest ever levels, reforms to the capital gains tax treatment of business assets, the introduction of research and development tax credits, permanent 40 per cent capital allowances for investment in plant and machinery by SMEs, and targeted measures to tackle market imperfections that restrict the supply of growth capital to small businesses. As a result UK

real business investment in 2002 was some 15 per cent higher than in 1997, despite falls reflecting a weak global investment climate.

The Government recognises that prolonged uncertainties in the global economy - discussed in Paragraph B22 of the Financial Statement and Budget Report - have depressed confidence and discouraged firms from bringing deferred investment projects back on stream. Nevertheless, the Government's macroeconomic framework has left the UK better placed to maintain growth and stability than in previous episodes of global economic turbulence. With long-term interest rates at their lowest level for nearly 40 years, the UK is well placed to experience a sustained pick-up in business investment once global uncertainties dissipate. Indeed, the CBI has acknowledged that hurdle rates for investment have fallen in real terms since 1994 and there are encouraging signs that the foundations for a recovery are now taking shape, with business investment in the first quarter of this year unchanged on a year earlier. This is a better performance than the US, where business investment has continued to decline over the past year, and almost certainly better than Germany and France, which have seen significant falls in whole economy investment over the past year.

4. The Committee considers that an assessment of the success of [the] individual measures [in this and earlier Budgets] in contributing to improved productivity would be valuable. (Paragraph 8)

The Government is committed to developing policies supported by robust evidence, and continually assesses the effectiveness of measures in contributing to the long-term goal of raising productivity growth. There are a wide range of projects investigating the impact of policies aimed at driving up levels of enterprise and productivity in the UK, including projects on management and productivity, critical success factors for cluster development, the role of business in the regeneration of deprived areas, and the links between ICT, skills and productivity. These are being funded by the Treasury's Evidence-Based Policy Fund (EBPF) and relevant departments.

The EBPF was established in 2000 to stimulate demand within government for good analysis relevant to policy formulation, and currently supports over 40 projects. The majority of the research projects sponsored by the EBPF are yet to reach completion, but initial feedback from departments suggests that they are helping to enhance the evidence base behind many key policies.

To support assessment of the impact and evidence base of existing and future policies, Jonathan Haskel (Queen Mary University of London) and researchers at the Centre for Research into Business Activity (CeRiBA) are conducting a large project looking into a variety of productivity policy-related areas. These include:

- firm size and productivity;
- multinationals, foreign ownership and the US productivity lead;
- the manufacturing productivity spread;
- skills and productivity; and

- innovation and productivity.

The project is jointly funded by the EBPF, the Department for Trade and Industry (DTI) and the Office for National Statistics, and is due to be completed in autumn 2003.

5. We note that the imbalances between domestic consumption and other parts of the economy in the UK continued [since the time of the 2002 Pre-Budget Report], although since the end of the first quarter of 2002 there is some evidence of a slowdown in domestic consumption. (Paragraph 9)

As stated in paragraph B26 of the Financial Statement and Budget Report (FSBR) 2003, growth in private consumption has progressively eased back from its peak in 2000, to below 4 per cent last year, and there have been signs of a further moderation in recent months. House price inflation also appears to have fallen back from its peaks in the second half of 2002. Moreover, there are encouraging signs that the foundations for a recovery in business investment are now taking shape.

As set out in Chapter B of the 2003 FSBR, a rebalancing of growth is expected over the forecast horizon. Strengthening world conditions are expected to boost growth in manufacturing output and business investment, while consumption growth gradually reverts to more sustainable rates in response to weaker real income growth and falls in equity prices.

6. The MPC has so far been successful in maintaining inflation within its stated target range, avoiding both the traditional UK problem of excessive inflation and the current problem in some other economies of deflationary conditions, of which Japan is the most severe example. (Paragraph 11)

The Committee is right to point out that RPIX inflation has remained close to the Government's target of 2½ per cent. Since May 1997 RPIX inflation has averaged 2.4 per cent and remained within a range of 1.5 to 3.2 per cent.

The Committee should note however, that the inflation target is a symmetric point target: the trigger points for an open letter do not constitute a target range. Symmetry ensures that there is no deflationary bias in setting interest rates.

The inflation target: RPI and HICP

7. We note the Treasury's intention to continue to examine the detailed implications of a change to using the Harmonised Index of Consumer Prices (HICP) as the measure of domestic inflation targeted by the Bank of England. We note that this would bring the UK into line with the European Central Bank, which targets eurozone inflation based on the HICP. We further note that such a change could have implications for wage settlements and the uprating of benefits linked to inflation. It would also require a translation of the inflation target. We recommend that the Treasury publish a formal review of the implications of a change to the HICP by the time of the Pre-Budget Report 2003. (Paragraph 12)

In his statement on EMU on 9 June the Chancellor said that he had written to the Governor of the Bank of England that day stating that, subject to confirmation at the time

of the Pre-Budget Report, he intended to change the inflation target at that time, to one set on the consumer prices definition. He also confirmed that pensions and benefits and index-linked gilts would be calculated on exactly the same basis as now.

Outlook for the economy and forecasts

8. The potential impact on the broader economy of the current weak state of many pension funds is a serious issue that does not yet seem to have received the attention it deserves, even if the stock market recovery were to continue to the point that the current problem with deficits was resolved. We recommend that the Treasury should co-ordinate with relevant bodies the publication of aggregate data to enable the issue to be more readily quantified and assessed. (Paragraph 17)

Pension funds' statistics are an important issue for the ONS and Government statistical service more widely. The recent report of the Review of Pension Contributions Statistics (conducted by a committee comprising academics, industry experts and officials from various Government departments) and subsequent action plan highlighted areas for improvement in the information available on pension funds. One of the action points was to consider whether a statistical digest or fact sheet could be produced, bringing together all available pension statistics. The action points are being taken forward by ONS, HMT, DWP and others.

9. The Committee recognises that the international circumstances in which the Budget forecasts were constructed were unusually uncertain as a result of the Iraqi conflict, but observes that the Treasury's forecasts for 2004 are notably more optimistic than those of a wide range of other forecasting bodies. It is important to maintain the credibility of the economic assessment underpinning Treasury forecasts for the public finances. The Committee recommends that in these circumstances it would be helpful for the Treasury to publish supporting technical studies to explain the basis of its forecasts, as the Bank of England does with its Quarterly Bulletin. (Paragraph 21)

Treasury economic forecasts are anchored around projections for the trend path of the economy, with the lower and upper ends of the forecast ranges respectively anchored around paths entailing trend growth $\frac{1}{4}$ percentage points below and above the neutral view. The Treasury's projections for the public finances are based on the lower end of the economic forecast ranges. This, along with various other assumptions, imparts a degree of caution to the public finance projections.

At the time of Budget 2002, the Treasury's view on the neutral rate of trend growth, around which the mid-points of the economic forecast ranges are anchored, was set out in a detailed technical paper *Trend Growth: Recent Developments and Prospects*, HM Treasury, April 2002. An update of this analysis was included in the 2002 Pre-Budget Report and the 2003 Financial Statement and Budget Report (FSBR).

Chapter B in FSBRs and Annex A in Pre-Budget Reports present a comprehensive assessment of economic developments and set out clearly the main factors underpinning the Treasury's judgement on prospects.

10. To reinforce the Treasury's reputation in the area of economic forecasting, the Committee recommends that the Treasury should consider commissioning a technical review of its forecasting procedures, as has usefully been done by the Bank of England. (Paragraph 24)

There are no plans to commission such a review at the present time. The Treasury's forecasts for the UK economy are constructed using the Treasury's macroeconomic model as a framework within which to apply forecasters' judgments and ensure consistency. The Treasury model documentation is publicly available. The Treasury also continues to publish average absolute errors on forecasts for GDP and its components in table B9 of the FSBR and publishes the End Year Fiscal Report alongside the PBR analysing forecasts against outturns.

Furthermore, the National Audit Office already examine the 2½ per cent cautious trend growth assumption underpinning the public finance projections. They concluded in 2002, when they last looked at it, that '*using a 2½ per cent trend growth assumption as the basis of the fiscal projections is reasonable and cautious*'.

11. We note that the growth assumption underlying the public finances is 3.25% in 2004-05, which is the mid-point, rather than the bottom end, of the Treasury's forecast ranges for growth in 2004 and 2005. We ask the Treasury to clarify whether this is a departure from their previously stated policy of using the bottom end of the forecast range for growth, in projections of the public finances, and to give in more detail the basis of their calculation. (Paragraph 26)

As set out in the Government's response to the Treasury Committee's report on the 2002 Pre-Budget Report (HC 528), the fiscal projections continue to be based on the bottom end of the forecast range for GDP growth in each and every year of the projection period; there has been no departure from this practice.

The economic assumptions on which the fiscal assumptions are based are set out in Table C3 of Budget 2003 (HC 500). In the *calendar* years 2004 and 2005, the Budget 2003 forecast range for GDP growth is 3 to 3½ per cent; as such, the fiscal projections for the *calendar* years 2004 and 2005 are based on GDP growth of 3 per cent, the bottom end of the forecast range. However, over the *financial* year 2004-05, the equivalent bottom end of the same forecast range for GDP growth is 3¼ per cent.

12. We ask the Treasury to clarify the trend growth rate used to estimate the path of the output gap in each year from 2000-01 to 2007-08 and to provide justification for their approach. (Paragraph 27)

Table B3 of FSBR 2003 provided estimates of the neutral rate of trend output growth and its composition. As set out in this table, trend output growth between the first half of 1997 and the third quarter of 2001 is estimated to have been 2.61 per cent. Between the fourth quarter of 2001 and the fourth quarter of 2006, the neutral rate of trend output growth is projected to be 2¾ per cent.

As explained in paragraph C24 of the FSBR, beyond 2006-07, projections by the Government Actuary imply a slowdown in the growth of the population of working age, due to demographic effects. The Government's neutral view of trend output growth is

reduced to 2½ per cent in 2007-08, and so, to maintain a cautious approach, an assumption of 2¼ per cent is used in the public finance projections in that year, still ¼ percentage point lower than the Government's neutral view. A detailed explanation is set out in the paper *Trend Growth: Recent Developments and Prospects* published alongside Budget 2001.

Tax receipts

13. Even though the Treasury is adhering to cautious underlying assumptions about the equity market over the next few years, it nevertheless forecasts a strong recovery in corporation tax revenues. This implies a far sharper recovery in corporate profitability than is currently envisaged by independent forecasters. (Paragraph 34)

14. The Committee concludes that the spread of risks around the Treasury's revenue assumptions, particularly in 2004-2005 and beyond, is skewed downwards. To be fulfilled, the Treasury's forecasts require not just a sharp rebound in overall economic activity but also a rapid recovery in the prosperity of the City of London. At a time of significant structural change in financial markets and the financial services industry, there is a risk that profitability and tax revenues will not recover as rapidly as the Treasury suggests. (Paragraph 36)

[Response to 13 and 14] The public finance projections continue to be based on a number of deliberately cautious key assumptions independently audited by the National Audit Office (NAO). This includes:

- using a trend growth assumption that is one quarter of a percentage point below the Government's neutral view;
- assuming that the ratio of underlying VAT receipts to consumers expenditure falls by 0.05 percentage points a year; and
- assuming that equity prices would only grow from the low levels seen at the time of the Budget level in line with money GDP, despite independent forecasters expecting a 20 per cent rise over the coming year.

These assumptions clearly result in a number of significant upside risks to the public finance projections. In addition, the various uncertainties that are affecting the global economy could dissipate more quickly, and confidence recover more sharply, than anticipated. This could, in turn, help support a stronger than expected improvement in UK economic prospects and public sector finances.

Budget 2003 also recognises a number of downside risks. The forecast assumes that financial company profits will recover from their current depressed levels and return to their trend ratio with GDP as the world recovery gathers strength. This recovery could be delayed if there is a period of prolonged uncertainty, accompanied by continued volatility in financial markets. However, the underlying strength of the public sector finances, together with the cautious framework on which the projections are based, means that the government remains vigilant in the face of these risks and firmly on track to meet its fiscal rules, even in the cautious case.

15. While recognising the need to preserve confidentiality in tax matters, the Committee feels that it would boost transparency and better inform the policy debate if the Treasury published its revenue projections in greater detail. We ask the Treasury to consider if it is possible to publish revenue projections and past data for broad areas of the economy, such as for the financial sector, the manufacturing sector and the services sector, without threatening confidentiality. This would greatly aid transparency and permit a much clearer assessment of official revenue projections. (Paragraph 38)

Chapter C of the Financial Statement and Budget Report already contains a great deal of information regarding the public finance revenue projections, including:

- tables containing tax projections for up to 32 different tax headings;
- the impact of changes in different tax determinants; and
- detailed descriptions of individual tax forecasts.

In addition, HM Customs & Excise and the Inland Revenue websites contain further information on tax receipts, and where possible, breakdown receipts between different sectors. The Treasury has also started to publish annual End of Year Fiscal Reports (EYFR) which provide a further boost to fiscal transparency through the reporting and analysis of retrospective fiscal developments over previous years. The introduction of the EYFR aligns the UK with international best practice, as set out by the International Monetary Fund (IMF) Code of Good Practices on Fiscal Transparency.

In terms of forecasting, although the Treasury forecasts for taxes such as PAYE and corporation tax are constructed using a bottom up approach that aggregates the tax forecast for individual firms and employees etc, those individual projections are themselves largely based on forecasts of more aggregated economic determinants. It is therefore not meaningful to try and break down these forecasts for individual sectors. In addition, it is near impossible to accurately allocate various excise duties between different sectors.

Public expenditure

16. The full amount of the £3 billion contingency provision relating to the cost of Iraqi operations has been allocated to 2002-03. Adjusting for this unanticipated item, overall spending has come in very close to plan. We note, however, the over-run in current spending in 2002-03 and would welcome an explanation as to how this occurred. (Paragraph 40)

The Government plans public expenditure on the basis of meeting the fiscal rules. The FSBR confirms that the Government continues to meet those rules. In meeting those rules the Government does not target public sector current expenditure per se, but targets Departmental Expenditure Limits and forecasts Annually Managed Expenditure (AME). Changes in estimated outturn in current spending reflect changes in AME forecasts, additional expenditure occurred on a range of overseas and military operations and departmental draw down of their entitlement to end year flexibility.

17. The Committee recommends closer monitoring of the planned expansion in public investment, particularly in the case of local authorities and public corporations. In the

light of substantial underspending by government departments, local authorities and public corporations of money budgeted for investment in recent years, the Committee recommends an investigation of the reasons for this inability to adhere to investment programmes with a view to correcting either investment planning or means of delivery this year and in future years. (Paragraph 41)

18. We note that by historic standards and by comparison to competitors the UK public sector has a record of low capital expenditure, but we also note that future increases in capital spending must be efficiently and effectively managed. (Paragraph 42)

[Response to 17 and 18] The Government believes that a substantial increase in public sector investment is required to reverse the UK's history of under-investment and, as a result, public sector net investment has increased each year since 1999/2000 and reached £11.5 billion last year.

The Government is committed to ensuring that departments have coherent strategies and robust processes in place for managing their investment programmes in a way that maximises value for money. Last year departments reviewed their Departmental Investment Strategies, in conjunction with the Treasury and external assessors, and a range of improvements were identified and reflected in the revised Strategies that were published from December last year. In the lead up to the next Spending Review, the Government will continue to monitor investment programmes and, where necessary, look to strengthen the framework for the delivery of public investment.

For local government, the Government has set out a long-term framework for investment by councils that provides greater certainty and stability over investment plans as well as encouraging councils to actively manage their forward investment programmes and review their existing asset base. Further details are set out in the *Strong Local Leadership, Quality Public Services* White Paper.

19. The lack of any publicly available detailed assessment of the overall economic and welfare impact of public sector net investment is striking. Without such information, it is very difficult to take an informed view of what the appropriate level of public investment is. (Paragraph 43)

The Government inherited years of under-investment in public sector assets and believes that a step-change in investment is necessary to catch-up and deliver improvements to the UK's economic and social infrastructure that facilitate the productivity and competitiveness of the economy.

Departmental Investment Strategies published alongside SR2002, together with a summary paper, set out the case for the levels of overall investment and analysis by department.

20. [The recent] dramatic fluctuations in public sector net investment militate against the efficient delivery of a sound public sector infrastructure. We believe that it might help to deliver a smoother, more efficient flow of public sector investment spending if the Treasury adopted an explicit target range for public sector net investment as a per cent of GDP over the economic cycle. (Paragraph 44)

Public sector net investment is affected by a range of factors, and some fluctuation is inevitable. For example, PSNI is net of depreciation, a public sector wide figure estimated by the ONS and subject to revision. The Government sets out in each Budget and Pre-Budget Report projections for public sector net investment over the five-year forecast period, and allocates firm and fixed departmental budgets accordingly. These budgets were last set in the 2002 Spending Review for the period through to 2005-06 and provide a stable basis for departments to efficiently plan their medium-term investment programmes.

Borrowing and the 'golden rule'

21. The Chancellor is on course to meet the golden rule during the current cycle. However, on the central case the estimated surplus has fallen from £46 billion to £32 billion since November 2002. The margin for error around the Government's fiscal position in the current cycle has narrowed from the forecasts in Budget 2002 and the Pre-Budget Report 2002. (Paragraph 49)

Budget 2003 projections for the public finances show that on the basis of reasonable and cautious assumptions, the Government remains firmly on track to meet its strict fiscal rules over the economic cycle, even in the cautious case.

22. The golden rule has survived recent global shocks relatively well, thanks to the large surplus built up in the early years of the current cycle. As we move into the latter half of the current cycle, we await with interest the Treasury's views on the public finances over the next cycle. (Paragraph 51)

Consistent with the *Code for Fiscal Stability*, projections for the public finances over the five-year period to 2007-08 were set out in Budget 2003. The current budget is comfortably in surplus from 2005-06 onwards, and the average current budget since 1999-2000 is in surplus in each and every year of the projection period. An interim forecast update will be published in the 2003 Pre-Budget Report.

Protecting tax receipts

23. The Committee welcomes the Comptroller and Auditor General's recommendation and suggests that a clear assessment should be published each year of the actual impact on receipts of any revenue protection measures announced in the previous year's Budget. This assessment should be audited by the NAO. It would provide a clearer framework for assessing both the impact of recent revenue protection moves and the likely gains from any further revenue protection moves in the future. (Paragraph 54)

The Government is committed to transparency in the conduct of fiscal policy, and to the external scrutiny of measures taken to protect revenues and ensure fairness in the tax system. The Comptroller and Auditor General was invited to examine the assumption relating to the *Tackling Tobacco Smuggling* strategy upon its introduction in Budget 2000, and again at the time of the 2002 Pre-Budget Report and Budget 2003.

At the time of Budget 2003, the Government also invited the Comptroller and Auditor General to determine whether the revenue impact of the direct taxation and national insurance contributions compliance package and enforcement package, estimated for the

purposes of the fiscal projections, was reasonable and cautious. The Government endorses the Comptroller's recommendation, and is committed to thorough monitoring and evaluation of the package. Consistent with previous practice, the Government will invite the Comptroller and Auditor General to examine the performance of the compliance and enforcement package at such time as outturn data is available.

Stamp duty on commercial leases

24. The Committee notes that tax avoidance in the property market is an important issue for the authorities to address. We recommend that the proposed consultation process focusing on the reform of the stamp duty treatment of commercial leases should be allied to a wider ranging review of the taxation of commercial property transactions. In this context we note the current consultation on stamp duty and await its outcome with interest. (Paragraph 57)

Consultation on stamp duty will continue right up to implementation in December 2003 and beyond. Among the further issues to be addressed are the taxation of complex commercial transactions, including sub-sales, partnerships, and financing transactions (securitisations and sale and leasebacks). Besides stamp duty, the ongoing consultation process on corporation tax reform will consider the underlying tax treatment of profits made on commercial property, in particular the taxation of capital gains and the trading-investment divide. In addition to this, the Budget signals that the Government will discuss with the industry the evidence for the effectiveness of further measures to improve the efficiency and flexibility of commercial property markets, in particular the property investment market.

Child Trust Funds

25. We may wish to examine these proposals further when particulars of the Child Trust Funds are more clearly defined. (Paragraph 59)

The Government looks forward to the Committee's examination of the proposals concerning the Child Trust Fund.

Regional and local variations in pay

26. The inclusion of a stronger local and regional dimension into the remit for public sector pay negotiations should proceed with the consideration of the associated issues such as the formulation of the price indices required to underpin the exercise, the risk of reducing demand in low pay areas, the danger of limiting the switch of public sector jobs from London and the South-East, and the consequences of the devolution of responsibility for some public sector pay to devolved administrations. (Paragraph 63)

The background to this issue is contained in the report of the Cross-cutting Review of the Public Sector Labour Market (http://www.hm-treasury.gov.uk/Spending_Review/spend_ccr/spend_ccr_labour.cfm). This report presented evidence to suggest that the introduction of greater local and regional flexibility into the pay and conditions of the public sector workforce would yield significant dividends in terms of improving the effective use of public money and raising the quality of public services.

The overall objective is to give departments and their managers' greater opportunity to address local recruitment and retention and other service delivery issues. At the same time, the Chancellor has made clear that a national pay bargaining framework will remain in place. This will be consistent with maintaining fairness, while offering flexibility and opportunity in terms of mobility.

The policy will be implemented, in particular, through this year's Pay Review Body round and the 2004 Civil Service Remits process. In developing policy there will be consideration of existing models of local pay and information to support local pay systems.

Several public sector pay systems are already in place, or at an advanced state of implementation, which incorporate the required features. For example, the *Agenda for Change* initiative, which will cover most of the National Health Service, incorporates a national framework based on competencies, with factors to allow for local market circumstances. Similarly, the pay system applying to most of the local government sector also incorporates a nationally negotiated pay framework with flexibility for local positioning in the light of local circumstances. Where appropriate, we will build on such existing structures.

Similar pay systems also operate in parts of the private sector, especially in the case of some branch structure companies in banking and retailing.

Tax credits

27. We recognise the scale and importance of the reforms of the tax and benefit system that the new tax credits represent. Child Tax Credit is available to nine out of ten families with children. The Working Tax Credit provides support to low paid workers without children. However, we note with concern the difficulties, acknowledged by the Paymaster General, being experienced by applicants for the new tax credits. It is simply unacceptable that some families that had submitted their claim for tax credits by 31 January, as requested by the Inland Revenue, had not received their award notice or payment by the start of the scheme in April. (Paragraph 71)

28. It appears that some families did not receive their money when they expected to and this may have been due to confusion about the date of the first monthly payments. However, we note the Treasury's evidence that some weekly recipients had received an award notice saying that they would be paid on 8 or 9 April, when the money would not be received until 10, 11 or 14 April. We are concerned that in these cases inaccurate and confusing information has been issued to the public about the payment of tax credits. (Paragraph 72)

29. We welcome the Paymaster General's assurance that arrangements are in place to make interim payments to people where necessary and to look very closely at the question of compensation for people who did not receive the service that they were entitled to expect. We plan to follow up these matters when the Treasury Subcommittee takes evidence from the Inland Revenue on its expenditure plans. (Paragraph 73)

30. The Inland Revenue appears to have seriously underestimated the volume of calls to the tax credits helpline as the April implementation date approached, and the service suffered accordingly. We note the similarities of this case to that of the 2001 Census helpline on which we reported in March 2002. As in that case, we consider that the number of calls received by the Revenue on their helpline suggests a need for the Revenue to review their communications campaign and the nature and volume of calls received on the helpline to determine what can be done to reduce the level of help sought by the public in similar situations in the future. (Paragraph 75)

[Response to 27–30] As the Committee recognises, the introduction of the new tax credits represents a major transformation of the system of family support and the largest ever investment in families.

More than 4.25 million families have now received their tax credits award. 1.3 million families with children are also receiving enhanced support through Income Support/Jobseeker's Allowance. This means around 5½ million families are already benefiting from the new credits.

All claims received by the end of April have either been awarded or have been rejected, except in the small minority of cases where more information is needed or checks have to be made. Tens of thousands of claims continue to come in each week and the Inland Revenue is clearing over 100,000 claims per week on average.

The Paymaster General has made a full statement to the House of Commons on the IT issues arising in the initial stages. While the Government is committed to ensuring that all families get the service they are entitled to expect, it should be recognised that most families are receiving their tax credits as planned.

The Inland Revenue has long-standing arrangements in place to reimburse any reasonable costs incurred as a direct result of its mistakes or unreasonable delays. Arrangements set out in Code of Practice 1 ("Putting things right"). Under these arrangements each case will be looked at on the basis of its own facts.

With regard to the helpline, The Inland Revenue planned on the basis that it would receive very large numbers of calls – up to 10 million in the period from January to March 2003, and for each call to last 5 minutes on average. There were initially 2,000 staff involved in this area of work and during the first few weeks 700 additional staff were moved to join them.

In addition to the helpline people have the option of calling into any Inland Revenue Enquiry Centre or writing to the Tax Credit Office. Jobcentre Plus customers can also get information from their Jobcentre Plus office.

The Government has examined carefully the performance of the helpline, is using the knowledge gained to improve the performance of the NTC helpline and will, of course, take this experience into account in similar exercises in future.

HM Treasury

15 July 2003

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Third Report	The Office of Government Commerce <i>Response: Eleventh Special Report</i>	HC (2001–02) 851 HC (2001–02) 1217
Fourth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Paul Tucker and Ms Marian Bell	HC (2001–02) 880
Fifth Report	Banking, the Consumer and Small Businesses <i>Response: Twelfth Special Report</i>	HC (2001–02) 818 HC (2001–02) 1218
Sixth Report	The Financial Regulation of Public Limited Companies <i>Response: Thirteenth Special Report</i>	HC (2001–02) 758 HC (2001–02) 1219
Seventh Report	Parliamentary Accountability of Departments <i>Response: First Special Report [Session 2002–03]</i>	HC (2001–02) 340 HC (2002–03) 149
Eighth Report	Inland Revenue: Self Assessment Systems <i>Response: Fourteenth Special Report</i>	HC (2001–02) 681 HC (2001–02) 1220
Ninth Report	Appointment of Sir Andrew Large as a Deputy Governor of the Bank of England and Member of the Monetary Policy Committee	HC (2001–02) 1189