



House of Commons
Treasury Committee

Work of the Committee in 2005–06

Third Report of Session 2006–07

Report, together with formal minutes

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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 HM Treasury and its associated public bodies.

Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)
Angela Eagle MP (*Labour, Wallasey*)
Mr Michael Fallon MP (*Conservative, Sevenoaks*), (Chairman, Sub-Committee)
Mr David Gauke MP (*Conservative, South West Hertfordshire*)
Ms Sally Keeble MP (*Labour, Northampton North*)
Mr Andrew Love MP (*Labour, Edmonton*)
Kerry McCarthy MP (*Labour, Bristol East*)
Mr George Mudie MP (*Labour, Leeds East*)
Mr Brooks Newmark MP (*Conservative, Braintree*)
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)
Mr Mark Todd MP (*Labour, South Derbyshire*)
Peter Viggers MP (*Conservative, Gosport*)

The following members were also members of the Committee during Session 2005–06:

Lorely Burt MP (*Liberal Democrat, Solihull*)
Damian Green MP (*Conservative, Ashford*)
Susan Kramer MP (*Liberal Democrat, Richmond Park*)
David Ruffley MP (*Conservative, Bury St Edmunds*)

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. The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

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) from Session 1997–98 onwards are available on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales and Aruni Muthumala (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

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Summary

This Report gives an account of the work of the Treasury Committee and of its Sub-Committee in 2005 and 2006. The Report identifies four main themes of that work:

- A continuing priority for scrutiny of key elements of economic policy, including fiscal and monetary policy;
- A growing emphasis on the international dimension of economic policy, including the effects of globalisation;
- A wide-ranging examination of the capacity of public policy and the financial services industry to respond to the needs of the financially-excluded and those with less experience of financial products; and
- An increased commitment to scrutiny of the administration of the Chancellor of the Exchequer's departments other than HM Treasury, with a particular focus on the effectiveness of HM Revenue & Customs in fulfilling its increasing range of duties in the area of income distribution as opposed to revenue collection.

We analyse the extent to which our work has fulfilled the core tasks of departmental select committees. We then describe important aspects of our working practices, including endeavours to promote the implementation of recommendations in Reports of the Treasury Committee in the last Parliament. Finally, we make observations about how relations between the Committee and HM Treasury could be strengthened.

1 Introduction

The scope of the Treasury Committee's work

1. HM Treasury is the United Kingdom's economics and finance ministry. It is responsible for formulating and implementing the Government's financial and economic policy.¹ Our duty to scrutinise such wide-ranging responsibilities ensures that the scope of the Treasury Committee's work is similarly wide. Our work encompasses examination of fiscal and monetary policy, study of the operation of financial services markets, and their impact on consumers in particular, and consideration of the operation of the several departments and public bodies which report to the Chancellor of the Exchequer. These include HM Revenue and Customs, which is now responsible for a substantial element of the welfare state as well as performing the traditional revenue and duty collection functions of its predecessor departments.

Purpose and structure of this Report

2. The concept of annual reports by select committees originated with a Report by the Liaison Committee published in March 2000 which advocated a more systematic approach by select committees to critical examination of their own work and its impact.² The Treasury Committee in the 1997–2001 Parliament reported on its work in December 2000, surveying activities of the Committee and its Sub-Committee during the Parliament which began in 1997 to that point.³ The Treasury Committee in the 2001–05 Parliament reported on its work in the early months following its establishment in a memorandum to the Liaison Committee.⁴ Subsequently, in respect of each calendar year from 2002 to 2004, the then Treasury Committee published an annual report on its work early in the following calendar year.⁵

3. The main purpose of this Report is to provide an account of the work of the Treasury Committee in the current Parliament from its appointment until the end of 2006. In addition, in order to provide continuity, some mention is made of the activities of the previous Committee in the last months of the 2001–05 Parliament. The work of that Committee formally came to an end with the dissolution of Parliament on 11 April 2005.⁶ The membership of the Committee in the present Parliament was determined on 13 July 2005 and we held our first meeting the following day.

1 www.hm-treasury.gov.uk

2 Liaison Committee, First Report of Session 1999–2000, *Shifting the Balance: Select Committees and the Executive*, HC 300, paras 51–55

3 Treasury Committee, First Report of Session 2000–01, *Work of the Treasury Committee and Treasury Sub-Committee*, HC 41

4 Liaison Committee, First Report of Session 2001–02, *The Work of Select Committees 2001*, HC 590, Appendix S

5 Treasury Committee, Fifth Report of Session 2002–03, *Annual Report for 2002*, HC 491; Treasury Committee, Fourth Report of Session 2003–04, *Annual Report for 2003*, HC 386; Treasury Committee, Third Report of Session 2004–05, *Work of the Treasury Committee in 2004*, HC 335

6 The last meeting of the House of Commons in the 2001–05 Parliament was on 7 April 2005; the then Treasury Committee held its last meeting on 5 April 2005.

4. Chapter 2 of this Report provides an overview of the current Committee’s work to the end of 2006. In chapter 3, we analyse the activities of the Committee thematically in relation to the “core tasks” assigned to select committees, and departmental select committees in particular, by the House of Commons and the Liaison Committee. Chapter 4 deals with the Committee’s working practices and relations with the Treasury.

2 Overview of work

Themes of our work and subjects covered

5. There were four main themes to the work of the Treasury Committee and its Sub-Committee in 2005 and 2006:

- A continuing priority for scrutiny of the key elements of economic policy, including the conduct of fiscal policy by HM Treasury and the conduct of monetary policy by the Monetary Policy Committee (MPC) of the Bank of England, reflected in regular scrutiny of Budgets and Pre-Budget Reports and of the Inflation Reports produced by the MPC;
- A growing emphasis on the international dimension of economic policy, reflected in hearings on the UK Presidency of the G8 and on the impact of China on the world and UK economy and inquiries into the role of the International Monetary Fund and Globalisation: its impact on the real economy;
- A wide-ranging examination of the capacity of public policy and the financial services industry to respond to the needs of the financially-excluded and those with less experience of financial products, reflected in inquiries into cash machine charges, financial inclusion, and the design of a National Pension Savings Scheme and the role of financial services regulation; and
- An increased commitment to scrutiny of the administration of the Chancellor of the Exchequer's departments other than HM Treasury, with a particular focus on the effectiveness of HM Revenue & Customs in fulfilling its increasing range of duties in the area of income distribution as opposed to revenue collection, with particular reference to the new tax credits system.

6. These four themes, and the many other issues which we and our predecessor Committee covered in 2005 and 2006, are apparent in Table 1 in the Annex, which lists all subjects covered in oral evidence in 2005 and 2006 in the order in which oral evidence was first taken. In addition to the oral evidence sessions listed in Table 1, the Committee and the Sub-Committee also received a great range of written evidence which made an invaluable contribution to inquiries. In order to examine these varied subjects and finalise 19 Reports in 2005 and 2006, the Treasury Committee held a total of 63 meetings, and its Sub-Committee held an additional 25 meetings. Further statistical and financial information about the Committee's work in Session 2005–06 is contained in the Sessional Return.⁷

⁷ *Sessional Returns for Session 2005–06*, HC (2006–07) 19. In addition to the 45 meetings in Session 2005–06, the previous Committee held 11 meetings in the first half of 2005 and the current Committee held 7 meetings in November and December 2006 during Session 2006–07. The Sub-Committee held 4 meetings in the first half of 2005 and 21 meetings in the second half of 2005 and in 2006, one of which was held in Session 2006–07. The total of 19 Reports is comprised of 5 Reports of the then Committee in Session 2004–05, 13 Reports in Session 2005–06 and one Report in Session 2006–07 published in 2006, but does not include Special Reports, which are generally used as a mechanism for publishing Government responses to Reports.

Visits

7. Visits within the United Kingdom and abroad play an invaluable role in the Committee's work, complementing evidence received at Westminster, enabling Members of Parliament to talk at first hand with experts and practitioners and enabling the Committee to compare approaches in the United Kingdom with those in other countries. In 2005 and 2006, for example:

- the then Committee's visit to China gave members an insight into why the Chinese economy is playing an ever-growing role in the world economy and informed the present Committee's decision to inquire into globalisation;
- visits to the Financial Services Authority (FSA), the Bank of England and HM Treasury in the early months of the present Parliament were invaluable in familiarising the Committee, and new members of the Committee in particular, with the work of three of the most important bodies which the Committee scrutinises;
- the Committee's visit to Brussels provided an opportunity for a face-to-face meeting with the European Commissioner responsible for European financial services legislation, a meeting which gave us further insights into the Commission's approach to the subject;
- the Committee's visit to Toynbee Hall in Tower Hamlets gave us a chance to speak directly to individuals about the difficulties that they had faced in seeking to open basic bank accounts;
- the Sub-Committee's visit to HM Revenue & Customs' Tax Credits Office in Preston gave members a direct understanding of the work of staff dealing with complex tax credits claims, particularly disputed overpayments, an experience which informed subsequent questioning of senior officials; and
- the Committee's visit to the United States of America gave us information about the operation of US laws relating to banking, credit and financial inclusion which informed the conclusions of our inquiry into financial inclusion.⁸

8. A full list of the visits undertaken by the Committee and its Sub-Committee in 2005 is contained in Table 2 in the Annex. Individual members of the Committee also undertook some visits in Europe representing the Committee, either to Brussels or to Member States holding the Presidency of the European Union. These informed our understanding of European taxation issues and the continuing debate about the future funding of the European Union.⁹ The Committee also held a range of informal meetings at Westminster with counterpart Committees from across the world, including visiting parliamentary committees from China, Albania and Sweden.

8 Treasury Committee, Twelfth Report of Session 2005–06, *Financial inclusion: credit, savings, advice and insurance*, HC 848-I, para 47; Treasury Committee, Thirteenth Report of Session 2005–06, *"Banking the unbanked": banking services, the Post Office Card Account, and financial inclusion*, HC 1717, paras 16–20

9 For information about such visits, and the costs of all visits, see HC (2006–07) 19.

3 Performance of the core tasks

Introduction

9. The concept of “core tasks” for select committees originated with a Report from the Select Committee on the Modernisation of the House of Commons in February 2002 which argued that there should be greater clarity about the objectives of select committees and greater consistency about how these were discharged, and that an agreed statement of the tasks of departmental select committees would assist with this.¹⁰ The Liaison Committee broadly supported these proposals, while noting that “the key to the usefulness of a list of core tasks is that it should represent a serious aspiration for committees, not a mechanical checklist. Not every item will be appropriate for every committee, nor will all items be capable of being tackled each year.”¹¹ The concept of common objectives was debated by the House of Commons on 14 May 2002, and during that debate the proposals of the Modernisation Committee were welcomed by the Chairman of this Committee.¹² On that occasion, the House invited the Liaison Committee to develop core tasks, and that Committee issued the core tasks in June 2002.¹³

10. Table 3 in the Annex sets out the core tasks and Table 4 provides an overall analysis of the extent to which each subject considered by the Committee and its Sub-Committee was relevant to the core tasks.¹⁴ The sections which follow provide a commentary on particular work relevant to each core task.

Task 1: Examination of policy proposals

11. The first core task is “to examine policy proposals from the UK Government and the European Commission in Green Papers, White Papers, draft Guidance etc, and to inquire further where the Committee considers it appropriate”. A major policy proposal which first emerged from HM Treasury in November 2005 was the decision to legislate to make the Office for National Statistics independent of Government. Specific legislation on statistics had been called for by our predecessors, and the Government’s proposals envisaged a role for parliamentary committees in holding the new body accountable, so the Sub-Committee conducted an inquiry into the full consultation document which was published in March 2006.¹⁵ The Report which we subsequently published characterised the Government’s proposals as a welcome step in the right direction, but highlighted a number of ways in which new legislation could enhance public confidence in official statistics.¹⁶ The Report’s findings received broad support from within the statistics profession: for example,

10 Select Committee on Modernisation of the House of Commons, First Report of Session 2001–02, *Select Committees*, HC 224-I, para 33

11 Liaison Committee, Second Report of Session 2001–02, *Select Committees: Modernisation Proposals*, HC 692, para 17

12 HC Deb, 14 May 2002, col 656

13 Liaison Committee, First Report of Session 2004–05, *Annual Report for 2004*, HC 419, para 6

14 For the text of the core tasks, see HC (2004–05) 419, p 6.

15 HC Deb, 28 November 2005, col 78W; Treasury Committee, Second Report of Session 2000–01, *National Statistics*, HC 137, para 19; HM Treasury, *Independence for statistics: a consultation document*, March 2006; Treasury Committee, Fourth Report of Session 2005–06, *The 2006 Budget*, HC 994-I, paras 117–119

16 Treasury Committee, Tenth Report of Session 2005–06, *Independence for statistics*, HC 1111

the Statistics Commission—an advisory non-departmental public body (NDPB) of HM Treasury—endorsed all the main arguments of the Committee’s Report.¹⁷ Although the initial Government reply largely re-stated the Government’s original position,¹⁸ the subsequent Government response to its consultation exercise accepted several of the Committee’s recommendations.¹⁹ There are, nevertheless, a number of unresolved issues, including the need to address the independence of statistics prepared within Government departments and the means by which official statistics are designated as National Statistics, which may be considered during the parliamentary progress of the Statistics and Registration Service Bill.²⁰

12. In the field of financial services, legislation originating with the European Commission plays an increasingly important role. Late in 2005, we began an inquiry into European financial services regulation, which included a visit to Brussels to which we have already referred.²¹ This inquiry examined developments relating to the Commission’s Financial Services Action Plan, most notably the progress in fleshing out the framework Markets in Financial Instruments Directive. The Report also explored the arguments for and against possible new Directives relating to mortgage credit and cross-border clearing and settlement, meaning that the Committee will be better prepared to examine any such proposals that emerge.²²

13. A number of policy aims of the Government in international economic affairs are pursued through international financial institutions, including the International Monetary Fund (IMF) and the World Bank. United Kingdom influence within the IMF is considerable, not least because the Chancellor of the Exchequer is also Chairman of the International Monetary and Financial Committee which reviews much of the IMF’s work. We undertook an inquiry into the role of the IMF which coincided with the review of its Medium-Term Strategy being undertaken by the IMF’s Managing Director, Mr Rodrigo de Rato. In our Report we made a number of recommendations designed to support and strengthen the reform agenda set out by Mr de Rato and the Chancellor of the Exchequer.²³ The Chancellor of the Exchequer applauded our Report as an “important document”,²⁴ and Mr de Rato said in a letter to the Chairman: “your Committee’s timely report is well-argued and I believe it will advance the agenda and consensus on important aspects of IMF reform”.²⁵ The Report subsequently received a constructive response from the Government.²⁶

17 Statistics Commission press notice, ‘Statistics Commission endorses Treasury Committee Report on Independence for Statistics’, 26 July 2006, www.statscom.org.uk

18 Treasury Committee, Seventh Special Report of Session 2005–06, *Independence for statistics: Government response to the Committee’s Tenth Report of Session 2005–06*, HC 1604

19 HM Treasury, *Independence for statistics: The Government response*, November 2006

20 House of Commons Bill 8 of Session 2006–07

21 See paragraph 7.

22 Treasury Committee, Seventh Report of Session 2005–06, *European financial services regulation*, HC 778

23 Treasury Committee, Ninth Report of Session 2005–06, *Globalisation: the role of the IMF*, HC 875

24 HC Deb, 13 July 2006, col 1453

25 Letter from Mr Rodrigo de Rato, Managing Director of the IMF, to the Chairman of the Treasury Committee, 18 July 2006

26 Treasury Committee, Second Special Report of Session 2006–07, *Globalisation: the role of the IMF: Government Response to the Committee’s Ninth Report of Session 2005–06*, HC 52

Task 2: Identification and examination of certain policies

14. The second core task is “to identify and examine areas of emerging policy, or where existing policy is deficient, and make proposals”. Drawing in part on relevant work undertaken by our predecessors,²⁷ at an early stage of this Parliament we identified financial inclusion as an issue meriting further examination. We embarked on a wide-ranging evidence-gathering exercise. Particular value came from oral evidence sessions where we were able to question senior figures in public and private sector organisations on their commitment to financial inclusion, requiring them to address issues which are often delegated to lower levels of such organisations. We acquired significant new evidence on the extent of access to particular financial services by the financially-excluded across the United Kingdom. The originality and value of the evidence we gathered is demonstrated by the fact that our evidence was cited by a Treasury Minister as his source for an answer to a parliamentary question.²⁸

15. Such was the range of evidence which we gathered on financial inclusion that we decided that the best way to do justice to the complex subject area was to produce three separate Reports, each with a different focus:

- the first Report analysed the challenges of financial inclusion, made proposals to enhance access to affordable credit and to financial advice and advocated a greater emphasis on the promotion of accessible savings products in Government policy on financial inclusion;²⁹
- the second Report focused on the role of banking services as an essential stepping stone to financial inclusion and the steps which the banking industry and the Post Office can take to maintain and broaden access to basic bank accounts and Post Office accounts;³⁰ and
- the third and final Report drew together the various strands of our inquiry and set out an agenda for action by the Government and the FSA to ensure a more coherent approach to promoting financial inclusion in future.³¹

The influence which these Reports have had in raising the profile of financial inclusion is demonstrated by an oral answer in the House by the Economic Secretary to the Treasury, Mr Ed Balls MP, who acknowledged that the Chairman and the Committee had “played an important leadership role on those matters in recent months”.³²

16. In our inquiry into the design of a National Pension Savings Scheme and the role of financial services regulation we endeavoured to examine a policy in its emerging stages.

27 Treasury Committee, First Report of Session 2003–04, *Transparency of Credit Card Charges*, HC 125–I, paras 67, 73–109 and 129–136; Treasury Committee, Eighth Report of Session 2003–04, *Restoring confidence in long-term savings*, HC 71–I; Treasury Committee, Fifth Report of Session 2004–05, *Cash Machine Charges*, HC 191

28 HC Deb, 4 December 2006, cols 190–191W

29 HC (2005–06) 848–I

30 HC (2005–06) 1717

31 Treasury Committee, First Report of Session 2006–07, *Financial inclusion: the roles of the Government and the FSA, and financial capability*, HC 53

32 HC Deb, 7 December 2006, col 429

We held our inquiry following the publication of the Second Report of the Pensions Commission chaired by Lord Turner of Ecchinswell and in advance of the expected Government White Paper.³³ In our Report, we emphasised the need for the Government to develop a new pensions product which maintained the simplicity and near-universal suitability proposed by the Pensions Commission to minimise both cost and the need for regulation.³⁴ The value of the Committee’s contribution has been acknowledged on more than one occasion by the Secretary of State for Work and Pensions, who said that the Report “has helped our thinking greatly”, and the Report has influenced the debate leading up to the publication of the Government’s detailed proposals on personal accounts in December 2006.³⁵

Task 3: Scrutiny of draft bills

17. The third core task is “to conduct scrutiny of any published draft bill within the Committee’s responsibilities”. HM Treasury did not publish any draft Bills in 2005 or 2006 and so scrutiny of such bills did not form part of the Treasury Committee’s work. On occasions, HM Treasury and HM Revenue & Customs publish draft Clauses for possible subsequent inclusion in the Finance Bill, most frequently following the Pre-Budget Report, but we do not have the time or the resources to devote to examination of what are usually highly technical provisions.

Task 4: Examination of departmental documents and decisions

18. The fourth core task is “to examine specific output from the department expressed in documents or other decisions”. The main documents published each year by the Treasury are the Budget and Pre-Budget Reports and the many documents which accompany them, and we examine these closely as part of our ensuing inquiries. Our examination is made more rigorous by the fact that we return to similar topics in the course of each of these periodic inquiries, and individual members of the Committee develop particular areas of interest and expertise as the Parliament progresses. To illustrate this work, we refer in this section to three examples of the topics covered in our periodic inquiries, relating respectively to economic forecasting, fiscal policy and public expenditure.

19. Each Budget and Pre-Budget Report is required to contain the Government’s economic forecast for the current year, the next year and the longer term. We compare those forecasts with those of outside organisations and we take evidence from a panel of experts who assist in identifying the risks that may affect the reliability of the Treasury’s forecast. Any economic forecast must contain a range of assumptions, and the oral evidence which we take from senior Treasury officials on such occasions provides a valuable opportunity to shed light on those assumptions.

33 *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission*, November 2005

34 Treasury Committee, Fifth Report of Session 2005–06, *The design of a National Pension Savings Scheme and the role of financial services regulation*, HC 1074–I

35 HC Deb, 25 May 2006, col 1662; HC Deb, 27 June 2006, col 144; HC Deb, 12 December 2006, col 746; Department for Work and Pensions, *Personal accounts: a new way to save*, Cm 6975, December 2006

20. The so-called “golden rule”—that over an economic cycle, the Government will borrow only to invest and not to fund current spending—plays an important role in the Government’s fiscal framework. Assessment of the Treasury’s compliance with this rule depends in part upon understanding and evaluating the Treasury’s judgement on the length of the current economic cycle. The Treasury’s assessment of the length of that cycle has changed on three occasions since July 2005. The first such change was announced by the Chancellor of the Exchequer when he gave evidence to us soon after we were appointed.³⁶ Further revisions have followed at the time of the 2005 Pre-Budget Report and of the 2006 Pre-Budget Report. We have subjected these changes to close scrutiny in our inquiries and made recommendations about the formulation and operation of the golden rule.³⁷

21. Each Budget and Pre-Budget Report provides an update on the progress of the efficiency programme designed to secure annual savings of £21.5 billion across central and local government by March 2008. We have examined these updates on a regular basis. We have made recommendations about how the presentation of information on the programme could be made more comprehensive and transparent so as to enhance public and parliamentary confidence in the programme, and have returned to the issue in subsequent inquiries in order to maintain pressure on the Government to improve its reporting to Parliament.³⁸

Task 5: Examination of expenditure

22. The fifth core task is “to examine the expenditure plans and out-turn of the department, its agencies and principal NDPBs”. The Sub-Committee holds a regular hearing with senior Treasury officials on issues arising from the Treasury’s departmental annual report. The Treasury itself has a relatively small budget and its own expenditure issues are seldom to the fore in such hearings, although we have, for example, examined escalating expenditure on the new Treasury building.³⁹ Similarly, expenditure issues are often raised during the routine scrutiny sessions which the Sub-Committee holds regularly with other departments and associated public bodies. This is particularly the case in relation to HM Revenue & Customs, where we have examined both its senior officials and the Paymaster General on the expenditure allocation decisions which have flowed from the efficiency programme.⁴⁰

23. The Treasury has wider responsibilities for financial management in Government. During our visit to the Treasury at the start of this Parliament and in subsequent oral evidence sessions of the Sub-Committee with senior Treasury officials, we have monitored

36 Treasury Committee, Oral Evidence, *G8 and other international issues*, HC (2005–06) 399–i, Qq 1, 7–8; HM Treasury, *Evidence on the UK economic cycle*, July 2005

37 HC (2005–06) 739, paras 40–47, 50–56; HC (2005–06) 994–I, paras 28–38; Treasury Committee, Second Report of Session 2006–07, *The 2006 Pre-Budget Report*, HC 115, paras 27–35

38 HC (2005–06) 739, paras 71–76; HC (2005–06) 994–I, paras 71–77; HC (2006–07) 115, paras 40–47

39 Treasury Sub-Committee, Oral Evidence, *HM Treasury: Departmental Report 2005*, HC (2005–06) 691–i, Qq 7–8; Treasury Sub-Committee, Oral and Written Evidence, *HM Treasury Departmental Report 2006*, HC (2005–06) 1659–i, Q 95

40 Treasury Committee, Oral and Written evidence, *HM Revenue and Customs: Spring Departmental Report 2005*, HC (2005–06) 524 i–ii, Qq 128–129, 137–138, 230–232; Treasury Committee, Oral and Written evidence, *HM Revenue and Customs Spring Departmental Report 2005–06*, HC (2006–07) 51–i, Qq 17–34

the progress of the Treasury’s target to ensure that all Government departments have professionally-qualified finance directors.⁴¹ We have also kept abreast of progress by departments under Treasury encouragement to lay their resource accounts before the House of Commons as early as possible after the end of the financial year to which they relate.⁴²

Task 6: Examination of Public Service Agreements and targets

24. The sixth core task is “to examine the department’s Public Service Agreements, the associated targets and the statistical measurements employed, and report if appropriate”. The Sub-Committee’s regular hearings with senior Treasury officials about their departmental report have been structured around examination of performance against Public Service Agreement targets. Both the Sub-Committee and the main Committee, in its inquiries into the 2006 Budget and the 2006 Pre-Budget Report, have paid particularly close attention to Treasury performance in relation to the targets which it shares with the Department for Work and Pensions to reduce and then eliminate child poverty.⁴³ We have probed the methods used to measure progress towards certain targets, seeking further elucidation from the Treasury on the ways it assesses its performance against its target to raise the rate of UK productivity growth.⁴⁴ We have also raised with the Treasury whether we could be involved in prior examination of its new Public Service Agreement targets as part of the 2007 Comprehensive Spending Review,⁴⁵ and this is a matter which we intend to pursue early in 2007.

Task 7: Monitoring of associated public bodies

25. The seventh core task is “to monitor the work of the department’s Executive Agencies, NDPBs, regulators and other associated public bodies”. Both the main Committee and the Sub-Committee devote considerable time each year to the monitoring of such bodies. The Treasury Committee plays a key role in securing public and parliamentary accountability for the work of the MPC of the Bank of England which sets short-term interest rates within a monetary framework established by the Government. The remit of the MPC set by the Chancellor of the Exchequer under the terms of the Bank of England Act 1998 states that “the Bank of England will be accountable to Parliament through regular reports and evidence given to the Treasury Select Committee”.⁴⁶ We take evidence at least three times a year from the Governor of the Bank of England and four other members of the MPC on the decisions of the MPC and their individual analysis of monetary policy risks and prospects. Such hearings are often preceded by hearings with outside experts and advisers to inform our understanding of the state of monetary policy. As a general rule, we do not prepare Reports arising from these sessions, although they inform our analysis of the state of the economy in our regular Reports on Budgets and Pre-Budget Reports. In 2007, we

41 HC (2005–06) 691–i, Qq 108–111; HC (2005–06) 1659–i, Qq 99–102

42 HC (2005–06) 1659–i, Qq 103–104

43 HC (2005–06) 691–i, Q 30; HC (2005–06) 994–I; paras 86–92; HC (2006–07) 115, paras 62–74

44 HC (2005–06) 1659–i, Qq 58–59 and Ev 16–17

45 *Ibid*, Qq 108–110

46 <http://www.hm-treasury.gov.uk/media/A5F/A7/lettertogovofbofepbr03.pdf>

will be undertaking a major inquiry examining the performance of and prospects for the MPC ten years on from its establishment.⁴⁷

26. The most important regulator within our purview is the FSA, which regularly gives evidence to us in the course of inquiries relating to financial services, including those on financial inclusion and the National Pension Savings Scheme. In addition, we hold regular hearings on the FSA's annual report when we cover a broad range of topics, and seek updates on matters that the Treasury Committee has examined in the past, such as the mortgage endowment market and split capital investment trusts.⁴⁸ In 2006 we sought to strengthen the effectiveness of our scrutiny of the FSA's annual report by identifying key themes in advance of the session and hearing evidence from other witnesses at a separate session prior to the hearing at which we took evidence from the FSA.⁴⁹ The FSA has recently assumed responsibility for the regulation of the general insurance industry, and our focus on this issue amongst others during our sessions scrutinising the FSA's annual report in 2006 led to our decision to hold a separate inquiry into the scope of the FSA insurance regulation, on which we will report early in 2007.

27. Of the departments and public bodies whose annual reports are regularly scrutinised by the Sub-Committee, HM Revenue & Customs is by far the largest. The Sub-Committee's scrutiny of its report and accounts in 2005 led directly to the decision that the Sub-Committee's first inquiry in the new Parliament would be into the administration of tax credits, an inquiry we discuss later in this Report.⁵⁰ In 2006, the Sub-Committee decided to consider tax credits in an evidence session separate from the scrutiny of annual reporting documents in order that the Sub-Committee could do full justice to other topics falling within HM Revenue & Custom's remit.

28. The Sub-Committee is also committed to regular scrutiny of the smaller bodies and departments within the Chancellor of the Exchequer's remit. In 2005, those examined included National Savings and Investments, as well as the Office for National Statistics and the Statistics Commission.⁵¹ In 2006, the Sub-Committee examined the Royal Mint, which had recently lost its Chief Executive and is facing significant problems in meeting the commercial targets set for it by the Treasury, and the Government Actuary's Department.⁵² As part of the consideration of the management of our work which we discuss further

47 "Treasury Committee announces new inquiry into 'The Monetary Policy Committee of the Bank of England: ten years on'", Treasury Committee Press Notice No. 3 of Session 2006–07, http://www.parliament.uk/parliamentary_committees/treasury_committee/tc211106pn03.cfm

48 Treasury Committee, Oral and Written evidence, *The Financial Services Authority*, HC (2005–06) 655–i, Qq 33–39, 120–121; Treasury Committee, Oral and Written Evidence, *FSA annual report scrutiny*, HC (2005–06) 1594–i & ii and HC (2006–07) 191, Qq 217–220

49 Ibid

50 See paragraphs 32 and 35.

51 Treasury Committee, Oral and Written evidence, *National Savings and Investments Annual Report and Accounts 2004–05*, HC (2005–06) 575–i; Treasury Committee, Oral and Written evidence, *Office for National Statistics: Annual Report and Accounts 2004–2005*, HC (2005–06) 666–i; Treasury Committee, Oral evidence, *Statistics Commission: Annual Report 2004–05*, HC (2005–06) 641–i

52 Treasury Committee, Oral and Written evidence, *Royal Mint Departmental Annual Report 2005–06*, HC (2005–06) 1679–i; Treasury Committee, Oral and Written evidence, *Government Actuary's Departmental Annual Report and Resource Accounts 2005–06*, HC (2005–06) 1678–i

later,⁵³ we have discussed ways to maintain and strengthen the effectiveness of our scrutiny of annual reports in future.

Task 8: Scrutiny of major appointments

29. The eighth core task is “to scrutinise major appointments made by the department”. Since 1998, the Treasury Committee has led the way in this area, holding hearings with all new appointees to the MPC of the Bank of England.⁵⁴ We have continued the same approach, sending a questionnaire to appointees to gain information about their personal independence and professional competence and then focusing our questions on issues with a bearing upon those criteria.⁵⁵ We have held hearings with five new appointees to the MPC in 2005 and 2006.⁵⁶ In Reports arising from our hearings, we indicated that we would return to the appointment process for senior posts at the Bank of England and for positions on the MPC, and the composition of the MPC.⁵⁷ We expect to examine these matters as part of our inquiry into the MPC in 2007 to which we have already referred.⁵⁸

30. Our endeavours to ensure individual accountability for members of the MPC, each of whom has a vote of equal value in deliberations on short-term interest rates, do not end with appointment hearings. The evidence that we hear from those members during our regular hearings on the MPC’s Inflation Reports ensures that we remain informed about their individual views and contributions. We have also indicated that we intend to take evidence and report on subsequent re-appointments to the MPC as well as initial appointments.⁵⁹ We expect to consider ways of maintaining and strengthening individual accountability of MPC members as part of our broader inquiry into the work of the MPC.

31. At present, we do not extend the same systematic approach to the scrutiny of other appointments within the Treasury sphere, although the regular hearings which we and the Sub-Committee hold on annual reports and accounts usually ensure that new senior appointees are likely to appear before the Committee or Sub-Committee not long after their appointment. Following the passage of the Statistics and Registration Service Bill, we expect to give further consideration to the way in which we will examine appointments to the new independent statistics office and the appointment of any new National Statistician.⁶⁰

53 See paragraph 43.

54 For a summary of hearings between 1998 and 2003, see Treasury Committee, First Report of Session 2005–06, *The Monetary Policy Committee of the Bank of England: appointment hearings*, HC 525–I, paras 3–4 and Annex

55 Ibid, paras 7–9

56 Mr David Walton, Sir John Gieve, Professor David Blanchflower, Professor Tim Besley and Dr Andrew Sentance.

57 Treasury Committee, Third Report of Session 2005–06, *The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve*, HC 861, para 3; Treasury Committee, Eighth Report of Session 2005–06, *The Monetary Policy Committee of the Bank of England: appointment hearing for Professor David Blanchflower*, HC 1121–I, para 3; Eleventh Report of the Treasury Committee, Eleventh Report of Session 2005–06, *The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance*, HC 1595–I, para 3

58 See paragraph 25.

59 HC (2005–06) 525–I, para 8

60 HC (2005–06) 1111, para 115

Task 9: Examination of implementation of legislation and policy

32. The ninth core task is “to examine the implementation of legislation and major policy initiatives”. The most far-reaching new policy within the area which we cover in recent years has been the introduction of the “new” tax credits—the child tax credit and the working tax credit—in April 2003. The administration of this new system was the subject of the first inquiry in this Parliament by the Sub-Committee. The tax credits system had also been examined by other select committees in the House, but the thorough and far-reaching Report which we published in June 2006 added significantly to parliamentary and public understanding of the system and its failings. We identified a number of significant problems with the administration of tax credits and made recommendations as to how HM Revenue & Customs could focus effectively on adopting a more claimant-centred approach. We highlighted the role of official error in causing overpayments, followed up several recommendations made earlier by the Parliament Commissioner for Administration and analysed the likely effect of the package of reforms announced at the time of the 2005 Pre-Budget Report.⁶¹

33. Another significant policy innovation in recent years has been the introduction of Child Trust Funds following the passage of the Child Trust Funds Act 2004. This policy had been the subject of a Report by the Committee in 2003 arising from an inquiry by the Sub-Committee,⁶² and the Sub-Committee subsequently held an evidence session with the Minister responsible for Child Trusts Funds, the then Economic Secretary to the Treasury, Mr Ivan Lewis MP, in November 2005. The Sub-Committee examined the relatively slow rate at which Child Trust Fund accounts were being opened by parents and the arrangements relating to the range and choice of accounts.⁶³ We expect this hearing to represent the start of a continuing monitoring process during this Parliament.

Task 10: Informing parliamentary debate

34. The tenth core task is “to produce reports which are suitable for debate in the House, including Westminster Hall, or debating committees”. In 2006, we maintained the practice of our predecessors of preparing our Report on the Budget at high speed in time for it to be “tagged” for the debate on the Second Reading of the Finance Bill, and the Report was referred to on several occasions in that debate.⁶⁴ Our Report also made a recommendation about further information related to the tax treatment of certain trusts which we considered would be of value to the House during subsequent detailed consideration of the Bill.⁶⁵

35. Publication of our Report on the administration of tax credits was followed swiftly by an Opposition half-day debate on that subject to which our Report was highly relevant. The Report was widely referred to in the debate and praised by spokespersons for the

61 Treasury Committee, Sixth Report of Session 2005–06, *The administration of tax credits*, HC 811–I

62 Treasury Committee, Second Report of Session 2003–04, *Child Trust Funds*, HC 86

63 Treasury Committee, Oral and written evidence, *Child Trust Funds: update on progress*, HC (2005–06) 738–i

64 HC Deb, 24 April 2006, cols 367, 378–384, 385, 435, 447, 453, 458

65 HC (2005–06) 994–I, para 109

Opposition parties as well as by the Minister.⁶⁶ The debate demonstrated the value of a select committee report in providing an element of consensus and clear factual information in a highly contentious area. The Report also informed questioning on a subsequent statement in the House by the Paymaster General about tax credits.⁶⁷

36. The Report on the design of a National Pension Savings Scheme and the role of financial services regulation was “tagged” as relevant to a debate on Pensions Reform on a Government motion in which members of the Committee participated.⁶⁸ We have already referred to the influence which this Report had on the evolving public and parliamentary debate on personal accounts.⁶⁹

37. One debate arising from a Report of the Committee has been held in Westminster Hall in the current Parliament. We refer to this debate on cash machine charges and the important role that it played in taking forward the recommendations of the Treasury Committee in the next chapter.⁷⁰

66 HC Deb, 7 June 2006, cols 277, 282, 285, 292, 293, 325

67 HC Deb, 11 July 2006, cols 1281–1293

68 HC Deb, 27 June 2006, cols 143–144, 217–219

69 See paragraph 16.

70 See paragraphs 41–42.

4 Working practices

Follow-up activities

38. In following-up a committee report, the publication of a Government response marks the beginning of a process, and not the end. We have accorded a high priority to such follow-up work. At our first meeting, we agreed that the Chairman would maintain a correspondence with various organisations about progress in implementing recommendations in Reports of the previous Parliament. Our commitment to sustained follow-up has borne fruit in a number of ways.

39. In a Report on Restoring confidence in long-term savings in July 2004, the then Treasury Committee noted the absence of a proper dialogue between the financial services industry, consumers and other interested parties, and recommended the creation of a forum including representatives from industry, the public sector and consumer groups.⁷¹ The Chairman of this Committee subsequently brokered discussions which led to the establishment of the Retail Financial Services Group, initially chaired by Mr Richard Lambert.⁷² We heard evidence from the Group as part of our work examining the FSA, and members of the Group from industry and consumer groups described the value of its work.⁷³

40. In December 2003, the then Treasury Committee published a Report on Transparency of credit card charges which sought to galvanise the credit card industry to speed up the introduction of a “Summary Box”—a clear presentation of the key elements of a credit card offer in a standard tabular form—and outlined measures to promote responsible lending.⁷⁴ In February 2005, the then Committee published a follow-up Report, which identified improvements which still needed to be made to Summary Boxes and called for the Government and industry to work together to improve the sharing of historic credit data between lenders.⁷⁵ Correspondence in the present Parliament between the Chairman of this Committee and banks and other credit card providers indicates that continued progress has been made on the quality of Summary Boxes, but that steps towards comprehensive data-sharing have been faltering. This is a matter to which we may return as a Committee in 2007.

41. In March 2005, the then Treasury Committee published a Report on Cash Machine Charges. While recognising that cash machines that charged consumers were a legitimate business model, the Committee expressed concern about the public policy implications if such machines were to displace free cash machines. The Report identified action to be taken by Government, but also noted that progress in ensuring that charging cash machines did not lead to financial exclusion depended upon the attitudes of banks, the

71 HC (2003–04) 71–I, para 115

72 HC (2005–06) 1594–i & ii and HC (2006–07) 191, Ev 57–63

73 HC (2005–06) 1594–i & ii, Qq 1–27

74 HC (2003–04) 125–I

75 Treasury Committee, Second Report of Session 2004–05, *Credit card charges and marketing*, HC 274

Post Office and local site owners.⁷⁶ Following the publication of the Government response in July 2005, which supported the principle that “people should be able to obtain their cash free of charge”,⁷⁷ the Chairman corresponded with the banks and others about their own response to the Report. On 16 February 2006, in a debate on the Report on Cash Machine Charges in Westminster Hall, the Chairman outlined not only the key elements of the then Committee’s initial Report, but also the findings of his subsequent work. He called for a systematic analysis of the geographical location of free cash machines to discover which low-income areas lacked access and called for the banks to expand provision of free cash machines into any under-served low-income areas identified by the research.⁷⁸ In the course of his response, the then Economic Secretary to the Treasury offered to organise a meeting between members of the Committee, key representatives of the banks, independent cash machine operators, consumer groups and members of the Government’s Financial Inclusion Taskforce.⁷⁹ This meeting took place on 4 May 2006, at which the then Economic Secretary agreed with major banks, consumer groups and charging cash machine operators on a proposal by the Chairman of this Committee that a working group be established to gather evidence and report back before Christmas.

42. The ATM working group which was chaired by the Chairman of this Committee reported in December 2006. It examined evidence about access to cash machines and issues relating to the transparency of charges and set out a systematic analysis of low-income areas that currently lacked access to free cash machines. The group facilitated commitments by a number of banks, building societies and independent operators, as well as the Post Office, to install over 600 new non-charging cash machines to expand provision into the areas identified in the research. The group also recommended the introduction of a “financial inclusion premium” to provide an incentive to extend access to free cash machines in low income areas and identified the need for a joined-up policy for planning permission for cash machines.⁸⁰ The working group’s report was followed immediately by joint action between the Chairman of this Committee and the Economic Secretary to the Treasury, Mr Ed Balls MP, to promote implementation of the group’s recommendations, including a joint letter to local authorities about planning issues.⁸¹ **The events which followed the publication of the then Treasury Committee’s Report on Cash Machine Charges, including the recent success of the ATM working group in securing a commitment to the introduction of over 600 new non-charging cash machines, demonstrate the value of active commitment to follow-up activities by a Committee and its Chairman. These events also demonstrate that debates on select committee reports in Westminster Hall can play a vital role in pressing for action following the Government response to a Report and that ministerial engagement can play a crucial role in delivering action following a Committee Report. We commend the work of all involved.**

76 Treasury Committee, Fifth Report of Session 2004–05, *Cash Machines Charges*, HC 191

77 Treasury Committee, First Special Report of Session 2005–06, *Cash Machine Charges: Government Response to the Committee’s Fifth Report of Session 2004–05*, HC 359

78 HC Deb, 16 February 2006, cols 517–527WH

79 Ibid, col 549WH

80 ATM working group, *Cash machines – meeting consumer needs*, December 2005

81 HM Treasury, ‘Over 600 new free cash machines in low income areas’, Press Notice 108/06, 13 December 2006

Other new approaches

43. The Treasury Committee is unusual among departmental select committees in that a considerable proportion of our work—around 20 of the 45 meetings of the main Committee in Session 2005–06—is devoted to recurring activities, such as inquiries into the Budget and Pre-Budget Report, hearings on the MPC’s Inflation Reports and hearings with new appointees to the MPC. This level of effectively pre-determined commitment, when combined with a wider range of more discretionary activities, requires a very considerable time commitment by members of the Committee and by its staff and others. On several occasions we held three meetings in the course a week, including a meeting of the Sub-Committee. In July 2006, we agreed on an experimental basis to set limits on the number of meetings of the Committee and the Sub-Committee, and, in particular, to avoid three meetings a week except when absolutely necessary. In setting the limits, including those for the Sub-Committee, we sought to ensure that our commitment to scrutiny of annual reporting documents was in no way diminished.⁸² It is too early to draw conclusions about the effectiveness of our approach, but the introduction of limits has encouraged us to think more carefully about forward planning and ensuring the effective use of available meetings.

44. There were two other innovations in the Committee’s working practices in 2005 and 2006 to note:

- on Tuesday 15 November 2005, we held a private seminar on globalisation with outside experts, which greatly assisted in determining our approach to the subject, leading directly to the decision to hold two separate inquiries, one focused on the role of the IMF and the other focused on the impact of globalisation on the real economy;
- on 7 June 2006, we took evidence from Dr Ivan Fellegi, Chief Statistician of Canada, by videolink, enabling us to learn directly about the experience of an independent national statistics office in another country while incurring minimal public expense.

Staffing and wider support

45. The current staff of the Committee are listed at the front of this Report. The staff of the Committee and the Sub-Committee in the course of Session 2005–06 are listed in the Sessional Return.⁸³ We are grateful to all those who served on the Committee staff in the course of the period. We also benefited from significant support from the Scrutiny Unit of the House of Commons, most notably for the Sub-Committee’s examination of annual reporting documents, for the Sub-Committee’s inquiry on Independence for statistics and for the Committee’s inquiry into the scope of FSA insurance regulation. We sought to strengthen our relations with the National Audit Office, and expect to comment further on the value of support and assistance from the National Audit Office in the equivalent Report in 2007. We welcomed the appointment of an additional Media Adviser in the Committee

82 See decisions of the Committee of 18 July and 23 November in formal minutes available at http://www.parliament.uk/parliamentary_committees/treasury_committee/tcfmsession0506.cfm

83 HC (2006–07) 19

Office, enabling our new media officer to devote more time to support for the Treasury Committee than was previously possible.

Relations with HM Treasury and other public bodies

General

46. Our relations with HM Treasury have generally been cordial and positive. The Chancellor of the Exchequer agreed to give oral evidence within days of the Committee's establishment and has given oral evidence on four subsequent occasions. Subject to diary issues, we have not generally faced difficulties in arranging evidence sessions with Treasury witnesses or with witnesses from HM Revenue & Customs and other associated public bodies. There are four matters, however, which we wish to mention alongside our this generally positive assessment of our relations with the Treasury.

47. First, like our predecessors,⁸⁴ we continue to believe that our work and that of Parliament more generally would be facilitated by more extended notice of the dates of Budgets and of Pre-Budget Reports. In our recent Report on the 2006 Pre-Budget Report we argue that the effectiveness of the Pre-Budget Report as an instrument of fiscal consultation would be enhanced if Parliament and the public were given greater notice of the date of the Pre-Budget Report. We re-state our earlier recommendation that the Treasury announce the date of the Pre-Budget Report at least four weeks before the statement is due to be made and, in any case where the target is not met, give an account of the reasons.⁸⁵

48. Second, on occasions the Treasury has been dilatory in the provision of written evidence following up oral evidence sessions. One such example came during our inquiry into the 2006 Budget. We made a number of requests for further information in the course of oral evidence sessions with Treasury officials and with the Chancellor of the Exchequer. The Treasury is familiar with the timetable for our consideration of Reports on the Budget, because we had made clear months earlier our intention to maintain the practice of publishing our Reports on Budgets prior to the Second Reading of the Finance Bill.⁸⁶ Despite this, the supplementary written evidence we requested was not received until after our Report had been agreed. We are now publishing this supplementary material as Appendix 2 to this Report. We do not consider that the information that was provided was of such complexity as to warrant the delay in supplying it. Similarly, information requested from HM Revenue & Customs relating to the inquiry into the administration of tax credits was not received before the inquiry was complete, leading us to draw the attention of the House to “the regrettable lack of priority which has been assigned to requests from this Committee for information central to our inquiry”.⁸⁷

49. Third, in October 2005, in the course of the Sub-Committee's scrutiny of HM Revenue & Customs' annual reporting documents, we requested that HM Revenue & Customs

84 HC (2004–05) 335, para 13

85 HC (2006–07) 115, para 96

86 HC (2005–06) 739

87 HC (2005–06) 811–I, para 196

provide us with information about the legal basis on which it recovered supposed tax credits overpayments, in cases where HM Revenue & Customs considered that a tax credit had been overpaid, but the claimant disputed that appraisal.⁸⁸ The Paymaster General, Dawn Primarolo MP, refused the Sub-Committee’s request on the basis that HM Revenue & Customs officials, “as holders of the information”, had advised her that they could not agree to the Sub-Committee’s request. In other words, the Government responded to the Sub-Committee’s request as if it were a request made under the Freedom of Information Act 2001. We drew this matter to the attention of the Liaison Committee, noting that the Government’s approach failed to acknowledge that committees derive their powers to request information from the House’s own inherent powers, not from the statutory authority of the Freedom of Information Act. There may well be circumstances in which Ministers can and should provide information to select committees which they are not prepared to release under the Freedom of Information Act, a possibility to which the Paymaster General’s letter did not refer.

Government replies

50. The fourth matter relates to the timing and quality of Government responses to our Reports. The timing of Government replies has been a concern of the Treasury Committee in successive Parliaments. In 2000, the then Treasury Committee observed that “a disappointingly large number of replies have arrived outside the two-month deadline [for Government responses] (even allowing for the understanding that if the deadline falls in a recess the reply should be received by the time the House next sits)”.⁸⁹ In 2002, our immediate predecessors considered that the position might have worsened.⁹⁰ In the current Parliament, a number of replies have been significantly delayed without any explanation for the delay being forthcoming from Ministers. The most notable delay was over the response to our Report on the administration of tax credits: the Report was published on 6 June 2006; the response was not received until 8 November. We note that the then Leader of the House of Commons said the following to the Liaison Committee about the timing of Government replies in December 2005:

The Guidance on *Departmental Evidence and Response to Select Committees* (July 2005) ... makes clear that there are circumstances in which it may not be possible or appropriate to reply within two months, but that in such cases the committee should be kept informed.⁹¹

The Treasury has not complied with this Guidance. **We expect to receive Government responses to our Reports within two months of publication or, where that deadline would fall when the House of Commons is not sitting, before the House returns. In any case where the Treasury considers that there are sound reasons why this timetable cannot be adhered to, we expect to receive a letter from a Treasury Minister setting out those reasons.**

88 Treasury Sub-Committee, Oral and Written Evidence, *HM Revenue & Customs Departmental Report 2005*, HC (2005–06) 524–i–ii, Ev 40

89 HC (2000–01) 41, para 25

90 HC (2001–02) 590, Appendix 5, para 9

91 Liaison Committee, First Report of Session 2005–06, *Government Reply to the Annual Report for 2004*, HC 855, p 10

51. We are also concerned about the quality of some replies. We were particularly disappointed with the Government’s response to our Report on the administration of tax credits. In addressing our recommendations, the response was too inclined to re-state points that Government witnesses had previously made in evidence and which we had already taken into account in framing our recommendations, rather than tackling the substance of our recommendations.⁹²

52. We have seen signs that weaker elements of a Government response might be related to inadequate attention within the Treasury to certain of our recommendations. In our Report on the 2006 Budget, we recommended that future Budgets and Pre-Budget Reports provide information on reported efficiency savings according to each Government-wide theme or “work stream” identified in the Gershon review on efficiency which was published in July 2004.⁹³ The Government response made no reference to that recommendation, which was not implemented in the 2006 Pre-Budget Report published on 6 December 2006. However, the following day, part of the information we sought was given by the Chief Secretary to the Treasury, the Rt Hon Stephen Timms MP, during Treasury questions.⁹⁴ The following week, we sought the full information during oral evidence from Treasury officials, who were unable to supply it even though our interest in obtaining such information had been registered as long ago as April 2006.⁹⁵

53. Similarly, in our Report on the 2006 Budget we recommended that the Treasury analyse the characteristics and income distribution of households facing marginal tax rates in the region of 60% to 70% and the extent to which those marginal tax rates were discouraging people from entering the workforce, from working longer hours or from acquiring additional skills. We further recommended that the Treasury publish the findings of such analysis at the time of the 2006 Pre-Budget Report.⁹⁶ The Government response did not address our specific recommendation, and no such analysis was provided in the 2006 Pre-Budget Report. When we asked Treasury officials about this recommendation, they were unable to point to any specific analysis carried out in response to our recommendation.⁹⁷

54. We have no wish to encourage the Government to reject any of our recommendations. However, where the Government does not propose to act on a specific recommendation, it should be willing to say so, giving reasons, and not simply to ignore the recommendation. Furthermore, when Treasury Ministers and officials give oral evidence, we consider it reasonable to expect them to be familiar with previous Committee recommendations, and any relevant Government action or inaction in response, in the policy fields for which they are responsible.

92 Treasury Committee, First Special Report of Session 2006–07, *The administration of tax credits: Government Response to the Committee’s Sixth Report of Session 2005–06*, HC 49

93 HC (2005–06) 994-I, para 76

94 HC Deb, 7 December 2006, col 435

95 See HC (2006–07) 115, paragraph 44 for further information on this matter.

96 HC (2005–06) 994-I, para 85

97 See HC (2006–07) 115, paragraphs 73–74 for further information in this matter.

Looking to the future

55. Although this Report makes observations designed to strengthen working relations between the Committee and the Treasury, we do not require a formal written response from the Government. Rather, we expect the Treasury to take our observations seriously and to take steps to further enhance its responsiveness to careful parliamentary scrutiny in future. In this way, and through our own endeavours, we look forward to further strengthening our work in 2007 and beyond.

Conclusions and recommendations

Working practices

Follow-up activities

1. The events which followed the publication of the then Treasury Committee's Report on Cash Machine Charges, including the recent success of the ATM working group in securing a commitment to the introduction of over 600 new non-charging cash machines, demonstrate the value of active commitment to follow-up activities by a Committee and its Chairman. These events also demonstrate that debates on select committee reports in Westminster Hall can play a vital role in pressing for action following the Government response to a Report and that ministerial engagement can play a crucial role in delivering action following a Committee Report. We commend the work of all involved. (Paragraph 42)

Relations with HM Treasury and other public bodies

2. We expect to receive Government responses to our Reports within two months of publication or, where that deadline would fall when the House of Commons is not sitting, before the House returns. In any case where the Treasury considers that there are sound reasons why this timetable cannot be adhered to, we expect to receive a letter from a Treasury Minister setting out those reasons. (Paragraph 50)
3. We have no wish to encourage the Government to reject any of our recommendations. However, where the Government does not propose to act on a specific recommendation, it should be willing to say so, giving reasons, and not simply to ignore the recommendation. Furthermore, when Treasury Ministers and officials give oral evidence, we consider it reasonable to expect them to be familiar with previous Committee recommendations, and any relevant Government action or inaction in response, in the policy fields for which they are responsible. (Paragraph 54)

Annex: Tables

Table 1: Subjects covered in oral evidence by the Treasury Committee and its Sub-Committee in 2005 and 2006 in chronological order of first evidence session

Subject	Evidence sessions in 2005 and 2006	Main Committee or Sub-Committee	Outcome and month of publication
<i>Excise duty fraud</i>	2	<i>Sub-Committee</i>	<i>Report, March 2005</i>
<i>Cash machine charges</i>	2	<i>Main Committee</i>	<i>Report, March 2005</i>
<i>The impact of China on the world and UK economy</i>	1	<i>Main Committee</i>	<i>Evidence, April 2005</i>
<i>Performance targets and monitoring</i>	1	<i>Sub-Committee</i>	<i>Evidence, March 2005</i>
<i>The 2005 Budget</i>	2	<i>Main Committee</i>	<i>Evidence, April 2005</i>
<i>Bank of England February 2005 Inflation Report</i>	1	<i>Main Committee</i>	<i>Evidence, April 2005</i>
G8 and other international issues	1	Main Committee	Evidence, September 2005
HM Revenue and Customs Spring Departmental Report 2005	2	Sub-Committee	Evidence, December 2005
The Monetary Policy Committee of the Bank of England: appointment hearings	1	Main Committee	Report, October 2005
National Savings and Investments Annual Report and Accounts 2004–05	1	Sub-Committee	Evidence, November 2005
Statistics Commission Annual Report 2004–05	1	Sub-Committee	Evidence, December 2005
Financial Services Authority	1	Main Committee	Evidence, December 2005
Office for National Statistics: Annual Report and Accounts 2004–05	1	Sub-Committee	Evidence, January 2006
HM Treasury Departmental Report 2005	1	Sub-Committee	Evidence, December 2005

Bank of England November 2005 Inflation Report	1	Main Committee	Evidence, December 2005
Child Trust Funds: update on progress	1	Sub-Committee	Evidence, January 2006
The 2005 Pre-Budget Report	3	Main Committee	Report, January 2006
European financial services regulation	1	Main Committee	Report, June 2006
The administration of tax credits	5	Sub-Committee	Report, June 2006
Financial inclusion	8	Main Committee	Reports, November 2006
The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	1	Main Committee	Report, February 2006
Globalisation: the role of the IMF	3	Main Committee	Report, July 2006
Bank of England February 2006 Inflation Report	2	Main Committee	Evidence, May 2006
The 2006 Budget	3	Main Committee	Report, April 2006
The design of a National Pension Savings Scheme and the role of financial services regulation	2	Main Committee	Report, May 2006
Office of Government Commerce: annual report scrutiny	1	Sub-Committee	Evidence, July 2006
The Monetary Policy Committee of the Bank of England: appointment hearing for Professor David Blanchflower	1	Main Committee	Report, May 2006
Independence for statistics	3	Sub-Committee	Report, July 2006
Bank of England May 2006 Inflation Report	2	Main Committee	Evidence, July 2006
Globalisation: its impact on the real economy	5	Main Committee	Report, early 2007

Financial Services Authority: annual report scrutiny	2	Main Committee	Evidence, January 2007
The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	1	Main Committee	Report, October 2006
HM Treasury Departmental Annual Report 2006	1	Sub-Committee	Evidence, January 2007
Government Actuary's Department Annual Report and Resource Accounts 2005–06	1	Sub-Committee	Evidence, January 2007
Royal Mint Departmental Annual Report 2005–06	1	Sub-Committee	Evidence, January 2007
The scope of FSA insurance regulation	1	Main Committee	Report, January 2007
Bank of England November 2006 Inflation Report	1	Main Committee	Evidence, January 2007
The 2006 Pre-Budget Report	3	Main Committee	Report, January 2007

Note: Evidence on the subjects listed in italics was taken by the Treasury Committee or its Sub-Committee in the last Parliament.

Table 2: Visits by the Treasury Committee and its Sub-Committee in 2005 and 2006

Location	Main Committee or Sub-Committee	Dates	Purpose of visit
<i>Hungary and the Czech Republic</i>	<i>Sub-Committee</i>	<i>18–19 January 2005</i>	<i>Inquiry into Excise Duty Fraud</i>
<i>Scotland</i>	<i>Sub-Committee</i>	<i>31 January 2005</i>	<i>Inquiry into Excise Duty Fraud</i>
<i>China (Beijing and Shanghai)</i>	<i>Main Committee/ Sub-Committee</i>	<i>28 February–4 March 2005</i>	<i>Inquiries into Impact of China on the world and UK economy and Excise Duty Fraud</i>
The Financial Services Authority, Canary Wharf, London	Main Committee	11 October 2005	General familiarisation and scrutiny
Bank of England, City of London	Main Committee	25 October 2005	General familiarisation and scrutiny
HM Treasury, Westminster, London	Main Committee	1 November 2005	General familiarisation and scrutiny
Brussels (European Commission, etc)	Main Committee	28–29 November 2005	Inquiry into European financial services regulation
Services Against Financial Exclusion, Toynbee Hall, Tower Hamlets, London	Main Committee	1 February 2006	Inquiry into financial inclusion
New York and Washington DC, USA	Main Committee	5–9 February 2006	Inquiry into financial inclusion and scrutiny of economic policy
Tax Credits Office, Preston	Sub-Committee	13 March 2006	Inquiry into the administration of tax credits
Dubai, United Arab Emirates, and Delhi and Mumbai, India	Main Committee	18–24 June 2006	Inquiry into Globalisation: its impact on the real economy

Note: The visits listed in italics were undertaken by the Treasury Committee or its Sub-Committee in the last Parliament.

Table 3: Core tasks

A: examine and comment on the policy of the dept.	C: examine the administration of the department
1. Examine policy proposals from UK Govt & Eur Commission in green /white Papers, draft Guidance etc,	6. Examine dept's Public Service Agreements, associated targets and statistical measurements employed
2. Identify and examine areas of emerging policy, or where existing policy is deficient, and make proposals	7. Monitor the work of the dept's Executive Agencies, NDPBs, regulators and other associated public bodies
3. Conduct scrutiny of any published draft bill	8. Scrutinise major appointments made by the department
4. Examine specific output from the department expressed in documents or other decisions	9. Examine the implementation of legislation and major policy initiatives
B: examine the expenditure of the department	D: assist the House in debate and decision
5. Examine the expenditure plans and out-turn of the department, its agencies and principal NDPBs	10. Produce reports suitable for debate in the House, including Westminster Hall, debating committees

Table 4: Core tasks relevant to subjects covered in oral evidence by the Treasury Committee and its Sub-Committee in 2005 and 2006

Subject	1	2	3	4	5	6	7	8	9	10
<i>Excise duty fraud</i>		✓					✓		✓	
<i>Cash machine charges</i>		✓		✓						✓
<i>The impact of China on the world and UK economy</i>		✓								
<i>Performance targets and monitoring</i>				✓	✓	✓	✓			
<i>The 2005 Budget</i>	✓	✓		✓	✓	✓			✓	✓
<i>Bank of England February 2005 Inflation Report</i>							✓	✓		
G8 and other international issues	✓			✓					✓	
HM Revenue and Customs Spring Departmental Report 2005				✓	✓		✓			
The Monetary Policy Committee of the Bank of England: appointment hearings								✓		
National Savings and Investments Annual Report and Accounts 2004–05				✓	✓		✓			

Statistics Commission Annual Report 2004–05				✓	✓		✓			
Financial Services Authority							✓			
Office for National Statistics: Annual Report and Accounts 2004–05				✓	✓		✓			
HM Treasury Departmental Report 2005				✓	✓	✓	✓			
Bank of England November 2005 Inflation Report							✓	✓		
Child Trust Funds: update on progress				✓			✓		✓	
The 2005 Pre-Budget Report	✓	✓		✓	✓	✓			✓	
European financial services regulation	✓	✓		✓					✓	
The administration of tax credits						✓			✓	✓
Financial inclusion		✓		✓			✓			
The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve								✓		
Bank of England February 2006 Inflation Report							✓	✓		
Globalisation: the role of the IMF	✓			✓						
The 2006 Budget	✓	✓		✓	✓	✓			✓	✓
The design of a National Pension Savings Scheme and the role of financial services regulation		✓							✓	✓
Office of Government Commerce: annual report scrutiny						✓	✓		✓	
The Monetary Policy Committee of the Bank of England: appointment hearing for Professor David Blanchflower								✓		
Independence for statistics	✓									✓
Bank of England May 2006 Inflation Report							✓	✓		
Globalisation: its impact on		✓		✓						

the real economy										
Financial Services Authority: annual report scrutiny							✓			
The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentence								✓		
HM Treasury Departmental Annual Report 2006				✓	✓	✓	✓			
Government Actuary's Department Annual Report and Resource Accounts 2005–06				✓	✓	✓				
Royal Mint Departmental Annual Report 2005–06				✓	✓	✓				
The scope of FSA insurance regulation	✓									
Bank of England November 2006 Inflation Report							✓	✓		
The 2006 Pre-Budget Report	✓	✓			✓	✓	✓		✓	

Note: Evidence on the subjects listed in italics was taken by the Treasury Committee or its Sub-Committee in the last Parliament.

Appendix 1: Letter from the Paymaster General to the Chairman of the Sub-Committee

Thank you for your letter of 27 October in which you request that I publish the advice that was the subject of earlier correspondence between David Laws MP and myself.

Officials in HMRC, as holders of the information, have advised me that, after careful consideration, they cannot agree to your request to disclose their legal advice.

I asked HMRC officials to provide me with a detailed explanation of their decision that I could pass on to you. I have set out below the reasoning behind HMRC decision.

HMRC's legal advice is that the information you requested is information that attracts legal professional privilege. The most recent consideration of the importance of this legal principle was the House of Lords in *Three Rivers DC v Bank of England (No. 6)* [2005] 1 AC 610:

The underlying rationale for having a strongest rule against disclosure is that it encourages full and frank exchanges between clients and their legal advisers, which is judicially recognised as being something strongly in the public interest, for a variety of reasons.

These reasons apply with particular force in relation to legal advice concerning governmental policies, because (i) it is strongly in the public interest that governmental action should respect the rule of law, which makes it imperative that clear, fully informed and fully reasoned and balanced legal advice should be available to the decision-makers with responsibility for such decisions; (ii) if the advice provided to the government were liable to be disclosed, the advice (and possibly the instructions underpinning that advice) might come to be tailored to take into account the impact they would have.

It is also an important factor, which underlies the general rationale for legal professional privilege and its particular application in the case of governmental decisions, that the rule against disclosure should be known to operate with reasonable certainty in advance. If its application were uncertain and too readily displaced, that would undermine the very public interest in encouraging full and frank exchanges between government and its legal advisers which the rule is supposed to promote.

For the above reasons, HMRC have concluded that it would not be appropriate to waive legal professional privilege and provide a copy of Counsel's advice, in response to your request.

I appreciate that this advice will be disappointing to the Committee. However, I have already set out, in my letter of 30 June to David Laws MP, the broad structure of Counsel's advice. A copy of that letter has been placed in the House.

Dawn Primarolo MP, 29 November 2006

Appendix 2: Memorandum of evidence received by the Committee for its inquiry into the 2006 Budget

Supplementary information from HM Treasury following the hearings of the Committee on 29 and 30 March 2006

What proportion of the trend population growth was attributable to migration

The Treasury's projection for population of working age and for migration is based on the Government Actuary's Department (GAD) principal projections. As noted by GAD, projecting migration is inherently uncertain, and in addition to their principal projection for net migration, they produce additional projections under alternative assumptions about migration (high and low). GAD's 2004-based projections are available on their website (<http://www.gad.gov.uk/Population/index.asp?dp=Current+projections&subYear=Proceed>)

The Treasury's population projections are based on, and fully consistent with, GAD's principal projections. The Treasury derives a quarterly series based on interpolation of GAD's mid-year estimates.

Contribution of migration to Treasury's population of working age projection:

- For the period 2004-2011 (this covers the period from the take off point for GAD projections until the end of the medium-term projection period), migration is projected to account on average for approximately 90% of the growth of working-age population (working-age population is projected to grow by 0.6% a year from 2004 to 2006, and by 0.4% a year from 2007 to 2011).
- For the period 2007-2011 the growth of the population of working age is driven entirely by migration. Indeed, excluding migration the working-age population would be projected to fall. This reflects the effect of post-War baby-boom women reaching retirement age as discussed in the Budget 2006 document (page 228).

To indicate the destination of any receipts of the sale of Scottish Water

Scottish Water is treated as a public corporation with ongoing operations in the fiscal projections. Any announcement on Scottish Water would be for the Scottish Executive. The funding arrangements of the devolved administrations, including the treatment of receipts from privatisation of public corporations, are set out in *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly*, published by the Treasury in July 2004.

Sanctions relating to Jobseekers Allowance (JSA) and the availability of JSA to those with children

Around 11% of JSA claimants are affected by some form of sanction or adverse decision on entitlement. As an illustration, in 2004/05, there were 1,700,000 new JSA claimants. In the same period, 197,000 people received some form of sanction or were disentitled.

Of the 1,700,000 people who made at least one claim for JSA in 2004/05, 124,000 had at least one dependent child, and of the 197,000 claimants who received some form of sanction or disentanglement, in that period, 17,800 (of those whose status is known) had at least one dependent child.

For those in a vulnerable group who have been sanctioned but not disentitled, including any JSA claimant with dependent children, a hardship payment can be made at a rate of 80% of the benefit.

The aim of the strengthened Fortnightly Job Review (FJR) is not to increase the numbers of sanctions applied but to ensure effective jobsearch. Depending on how claimants respond to the increased focus on jobsearch, there may be an increase in numbers of people whose entitlement to JSA is called into question because of a doubt about their availability for, or efforts to seek, work. Any claimants who lose their entitlement in this way will be able to reapply but will need to demonstrate that they are available for, and actively seeking, work.

What proportion of the £6.4 billion of reported Efficiency Programme savings are cashable.

The cashable element of the £6.4bn will be known after the end of the financial year. Local Authorities provide 2005-06 Backward Look returns on the completed financial year in their Annual Efficiency Statements, expected in July. Approximately 70% of the efficiency gains delivered by local authorities in 2004-05 were cashable.

The 2004 Spending Review (SR04) set the target of over £20bn of annual efficiency gains by 2007-08. The SR04 White Paper sets out that the vast majority of departmental SR04 efficiency targets are for at least 50% of their efficiency gains to be cashable. However, the overall profile will not necessarily look the same in each of the three years of the programme.

Information on the net savings arising from the Efficiency Programme

There are differences across the programme: some parts of the public sector are reporting net efficiencies, and some gross. For example, local government, which accounts for one-third of the Gershon target, is reporting net efficiencies. Departments are being encouraged to measure new efficiency initiatives in net terms where this is possible. However, many of the initiatives that are contributing to efficiency savings are also delivering other benefits, such as modernised services. These are large and complex projects. To disaggregate the costs of implementing those initiatives into the costs relating to extracting efficiency (from 2005/6, and in some cases earlier) and other costs, and to also link savings achieved in different years back to those costs, would be extremely difficult and costly.

To provide any further clarification on costings of PBR 05 Tax Credit measures

HMT's approach to forecasting the cost of the PBR Tax Credit package has already been the subject of explanation in Tony Orhniel's letter to the Committee of 8 December. There is nothing further to add at this stage.

Pension tax limits

The rules governing pension schemes changed on 6 April 2006, offering simpler and more flexible retirement arrangements and more options on how and when people contribute to their schemes, and draw their benefits. A single, universal regime for taxing pensions has now been introduced. The key limits in the new regime are as follows:

- Tax relief is available on pension contributions up to 100% of people's annual UK earnings.
- An annual allowance on savings into a pension (annual savings of more than this are subject to a tax charge). The annual allowance has been initially set at £215,000 and it will be increased annually as follows:

Tax Year	Annual Allowance
2006/07	£215,000
2007/08	£225,000
2008/09	£235,000
2009/10	£245,000
2010/11	£255,000

- A lifetime allowance on lifetime pension savings (anyone with pension savings of more than this at the time they take their pension is subject to a tax charge). The lifetime allowance has been initially set at £1,500,000 and it will be increased annually as follows:

Tax Year	Lifetime Allowance
2006/07	£1,500,000
2007/08	£1,600,000
2008/09	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000

Formal minutes

Tuesday 16 January 2007

Members present:

Mr John McFall, in the Chair

Jim Cousins

Angela Eagle

Mr Michael Fallon

Mr David Gauke

Ms Sally Keeble

Mr Andrew Love

Kerry McCarthy

Mr George Mudie

Mr Brooks Newmark

John Thurso

Mr Mark Todd

Peter Viggers

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Work of the Committee in 2005–06

The Committee considered this matter.

Draft Report (Work of the Committee in 2005–06), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 47 read and agreed to.

Paragraph 48 read, amended and agreed to.

Paragraphs 49 to 53 read and agreed to.

Paragraph 54 read, amended and agreed to.

Paragraphs 55 read and agreed to.

Annex agreed to.

Resolved, That the Report, as amended, be the Third Report of the Committee to the House.

Ordered, That the following Papers be appended to the Report: Letter from the Paymaster General to the Chairman of the Sub-Committee and Memorandum of evidence received by the Committee for its inquiry into the 2006 Budget.

Ordered, That the Chairman make the Report to the House.

[Adjourned till Tuesday 23 January at 9.45 am.]

List of Reports from the Treasury Committee during the current Parliament

Session 2006–07		Report
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
Session 2005–06		Report
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