



House of Commons
Treasury Committee

**The 2007 Budget:
Government Response
to the Committee's
Fifth Report of Session
2006–07**

**Fifth Special Report of Session
2006–07**

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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

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Kerry McCarthy MP (*Labour, Bristol East*) was a member of the Committee during this inquiry.

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, Jon Young, Harry Marin and Anna Leach (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

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Fifth Special Report

The Treasury Committee published its Fifth Report of Session 2006–07, *The 2007 Budget*, on 23 April 2007, as House of Commons Paper No. 389. The Government response to this Report was received on 13 June 2007, and is appended below.

Government response

The economy

The output gap

1. Migration of uncertain magnitude and the greater stability of the economy may reduce the value of the concept of the output gap as a tool of economic analysis. We recommend that the Government examine the impact of these factors on the role which the concept of the output gap should play in Treasury forecasting and analysis, and report on the outcome of such examination in its response to this Report.

HM Treasury's approach to forecasting macroeconomic developments is set out in paragraphs B.30 to B.35 of Budget 2007. At the heart of this approach are estimates of the economy's 'trend' level and rate of growth, which provide the foundation for analysis of cyclical movements around that trend - the output gap. The Treasury's analysis of trend growth and the output gap is therefore central to the economic forecast that underpins the setting of fiscal policy.

HM Treasury's latest assessment of trend growth was set out in *Trend growth: new evidence and prospects*, published alongside the 2006 Pre-Budget Report, when new data relating to inward migration provided grounds to support an upward revision of the assumed working-age population growth rate post-2006. A number of other institutions, including the IMF, also raised their estimates of medium-term growth in light of the new evidence on migration. Budget 2007 noted that "the latest evidence suggests that migration to the UK from new Member States of the EU continued through 2006 at levels somewhat above those seen in 2005" (paragraph B.40). As also set out in Budget 2007, migration data are subject to inevitable uncertainties (paragraph B.42), as are the data and projections for all components of trend output. Nevertheless the influence of migration on the economy is an important consideration and, as with other components of trend output growth, HM Treasury will keep developments in migration and related projections under close review. As set out in response to the Committee's next recommendation, HM Treasury continues to support the Office for National Statistics on-going work to improve the quality of their migration statistics.

Greater macro-economic stability has meant that the estimated output gap has fluctuated in a much narrower range over the past 10 years than previously, as illustrated in Chart B3 of the Budget report. To the extent that this reflects the effects of the improved

macroeconomic framework in reducing policy-induced shocks and more effectively damping other economic shocks, then the lower amplitude of the cycle can be expected to continue. However, it would be imprudent to assume that other shocks to the economy will not occur.

HM Treasury also uses a range of other economic indicators—including business surveys, labour market indicators and price data—to corroborate estimates of the output gap. HM Treasury's latest assessment of these indicators is set out in paragraphs B.50 to B.53, and Box B3 of Budget 2007.

Migration

2. Given the importance of migration for both the labour market and the measurement of the output gap, we welcome the work undertaken by the Office for National Statistics aimed at improving the quality of migration statistics. We recommend that the Treasury report regularly in Budget and Pre-Budget Reports on the progress of this work.

HM Treasury recognises that accurate and timely estimates of migration in and out of the UK are increasingly important following the growth of international migration flows.

HM Treasury continues to support the Office for National Statistics on-going work to improve the quality of their migration statistics. As reported in the Budget report (paragraph B.42) the ONS has consulted on the feasibility of producing estimates of short term migrants; a summary on the results of the consultation is now available on their website¹. The ONS' has also set improving migration statistics as one of its key priorities in its 2007/8 statistical work programme², with emphasis on:

- methods for estimating the numbers of short term migrants;
- improvements in the methods of distributing internal and external migrants between local authorities in population estimates; and
- plans and priorities for taking forward work on migration statistics, recommended by the Migration Statistics Task Force.³

In future years, once the Statistics and Registration Service Bill has passed through Parliament, work priorities will be set by the Statistics Board which will be a non-Ministerial department accountable to Parliament.

HM Treasury will continue to actively monitor progress on the work to improve migration statistics in a manner consistent with the Statistics Board's future statutory independent status.

¹ Updates on the ONS' Improving Migration and Population Statistics Project is available at the following web address: <http://www.statistics.gov.uk/about/data/methodology/specific/population/future/imps/updates/default.asp>

² Office for National Statistics (2007). ONS sets out statistical work priorities for coming year. ONS Press Release 27 March 2007. <http://www.statistics.gov.uk/pdfdir/wrk0307.pdf>

³ Office for National Statistics (2007). Plans for the ONS Statistical Work Programme for 2007-08. <http://www.statistics.gov.uk/about/ons/downloads/ONSWP0708Commonbody.pdf>

Inflation and monetary policy

3. The recent rise in inflation has been caused in part by a number of short-term factors, such as higher energy bills. There is little evidence at the moment that higher inflation is having second-round effects. We will, however, continue to keep the situation under review through our regular hearings on the Bank of England's Inflation Reports and our scrutiny of Budgets and Pre-Budget Reports.

HM Treasury's view on the outlook for inflation was set out in paragraphs B.56 to B.58 in Budget 2007, and the risks to that outlook were set out in paragraph B.105. The Treasury's assessment is that inflation expectations remain anchored to the inflation target and earnings growth has remained subdued. This suggests there have been no second-round effects from the recent above-target rates of inflation, although that risk has not yet subsided and developments over the next few months will need to be monitored particularly closely. The Government has continued to emphasise the need for pay settlements to be consistent with the achievement of the inflation target of 2 per cent. As set out in the Governor of the Bank of England's recent Open Letter to the Chancellor, "The Monetary Policy Committee remains determined to set interest rates at the level required to bring inflation back to the 2 per cent target".

The public finances

Revenue receipts

4. We note the very significant downward revision of forecast North Sea oil revenues in 2006–07 and 2007–08 compared with the 2006 Pre-Budget Report. We are concerned that the Treasury's estimate at Budget 2007 is so much lower than its forecast in the 2006 Pre-Budget Report, only three months earlier. We believe that the volatility of North Sea oil revenues constitutes a risk to taxation revenues in the future.

As set out at Budget 2007, increases in capital and operating expenditure within the North Sea, combined with a much greater than expected decline in North Sea production and a strengthening of the dollar-sterling exchange rate, have seen the prospects for North Sea revenues alter significantly since the 2006 Pre-Budget Report. An updated forecast for North Sea revenues will be published in the 2007 Pre-Budget Report.

5. The deterioration of the current budget balance predicted for 2006–07 and 2007–08 compared with the forecasts in last year's Budget and Pre-Budget Report has been caused by a reduction in the Treasury's forecasts of non-North Sea corporation tax revenues as well as a fall in its forecasts of North Sea oil revenues.

As set out at Budget 2007, the revisions to the current budget are due to a combination of expenditure and receipts effects. Lower than expected North Sea revenues more than account for the shortfall in forecast receipts, before discretionary measures, relative to the 2006 Pre-Budget Report. Non-North Sea corporation tax receipts in 2006-07 are estimated to be £1.9 billion lower than estimated in the 2006 Pre-Budget Report.

6. We recognise that the Government's forecasting record for overall revenues appears to have improved this year and that its forecasts of corporation tax receipts have been affected by the unanticipated reduction in North Sea oil revenues in 2006-07. However, the Treasury has over-estimated corporation tax receipts for the past six years. If the direction of forecasting errors is correlated with the economic cycle, as Treasury officials have suggested, the Treasury's recent forecasting record of over-estimation should be more cautious in the near future if output moves above trend. We will continue to monitor the Treasury's performance in forecasting corporation tax receipts with this in mind.

The Government acknowledges the Committee's intention to monitor corporation tax receipts in this context.

Public spending

7. This year's Budget includes confirmed levels of overall current public spending for the period from 2008-09 to 2010-11 which are in line with the figures used for the purposes of fiscal planning in the 2006 Pre-Budget Report, although previously cited figures relating to spending in this period were characterised by the Chancellor of the Exchequer at the time as "working assumptions" rather than final figures.

Although DEL and AME totals for 2008-09 onwards have not yet been determined, Budget 2007 sets firm overall spending limits for the 2007 Comprehensive Spending Review period.

Taking account of time limited items announced in this Budget, public sector current expenditure is forecast to grow at 2.0 per cent in real terms in 2008-09, and by 1.9 per cent in 2009-10 and 2010-11, unchanged from the 2006 Pre-Budget Report. This means that, on average, public sector current expenditure is forecast to grow by 2 1/4 per cent per year in real terms between 2006-07 and the end of the 2007 Comprehensive Spending Review period. Public sector current expenditure is assumed to grow by 2.0 per cent in real terms in 2011-12.

The capital expenditure envelope for the 2007 Comprehensive Spending Review period is fixed, based on public sector net investment at 2 1/4 per cent of GDP over the period, unchanged from the 2006 Pre-Budget Report. Net investment remains at 2 1/4 per cent of GDP in the spending projection for 2011-12.

As a result of these decisions on the firm overall limits for current and capital expenditure in the 2007 Comprehensive Spending Review period, Total Managed Expenditure (TME) grows by 2.0 per cent a year on average over the period. In each year of the 2007 Comprehensive Spending Review period, TME as a per cent of GDP is broadly unchanged from the 2006 Pre-Budget Report.

8. We welcome the procurement capability reviews that the Government is initiating in central government departments. We will continue to monitor outturns of public sector net investment expenditure against allocated budgets to develop an understanding of whether and how soon these capability reviews affect performance.

The Government is determined to improve the capability of its procurement function, to help deliver better public services at good value for money for the taxpayer, and welcomes the Committee's interest in this area. The Office of Government Commerce is leading these reviews, with the benefit of support from experienced people from the private sector and within government.

The golden rule

9. We welcome the Chancellor of the Exchequer's acknowledgment that counting the last year of the present economic cycle as the first year of the next economic cycle for the purposes of assessing whether or not the Government meets the golden rule would represent adherence to the Treasury's past practice. We expect to see this practice continue into the future.

As explained in the Government's response to the Treasury Committee's Report on the 2006 Pre-Budget Report, the Government will set out in the normal way the details of the fiscal position under the framework over the next cycle when it provides its view on the end of the current cycle. The Government will continue to publish its assessment of progress against the golden rule in each Budget and Pre-Budget Report.

The economy is expected to have returned to trend early in 2007. On this basis, and based on cautious assumptions, the Government is meeting the golden rule over the current cycle.

The golden rule has worked to ensure sound public finances: the surplus on the current budget over the current economic cycle is projected to average 0.1 per cent of GDP. This compares with an average deficit of 2 per cent of GDP over the last economic cycle from 1986-87 to 1997-98.

10. The reduction in amplitude of the economic cycles in the past decade or so and the difficulties of measuring the output gap have made the dating of the economic cycle and application of the golden rule a particularly difficult process. We reiterate our recommendation that the Government review the golden rule and consider how to make it more forward-looking and its application less dependent on the dating of the economic cycle.

Setting the golden rule over the cycle allows fiscal policy to support monetary policy in maintaining macroeconomic stability. This allows the fiscal balances to vary between years in line with the cyclical position of the economy, permitting the automatic stabilisers to operate freely to help smooth the path of the economy in the face of variations in demand. Responsible management of the public finances, in line with the Government's objectives, has enabled fiscal policy to effectively support monetary policy over the current cycle. The IMF noted in March this year, that in the UK "shocks, such as the global downturn of 2000-03 and the increase in oil prices during 2004-06, were managed with good policy

responses”, and noted “the shallowness of the UK growth slowdown during the last global downturn”.⁴

Fiscal policy is made in a forward looking way, as is made clear by the extensive use of projections in Budget 2007, covering the five years to 2011-12. The Government reports in each Budget and Pre-Budget Report on whether the golden rule, using cautious assumptions, is set to be met after the current cycle ends on the assumption that the economy is on trend. It also reports on projected performance against the golden rule in a cautious case of trend output being lower by 1 percentage point to stress test the projections.

The fiscal rules provide a clear measure of success that plays a vital role in ensuring the credibility and accountability of the fiscal framework.

The sustainable investment rule

11. We note that the interpretation of the sustainable investment rule in the current economic cycle requires that net debt is maintained below 40% in each and every year of the economic cycle. We recommend that the Government, in its response to this Report, give an account of the circumstances in which it would change its current interpretation of the sustainable investment rule for the next economic cycle.

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

International Financial Reporting Standards and PFI liabilities

12. We welcome the Government's decision to adopt International Financial Reporting Standards. We recommend that the Government, in its response to this Report, provide a fuller technical explanation of the differences between International Financial Reporting Standards and UK GAAP that could affect the future accounting treatment of PFI liabilities. We further recommend that the Government, in its response to this Report, explain more fully the reasons for the existing variations in on- and off-balance sheet classifications between departments.

There is no IFRS for accounting for PFI although there is likely to be an International Financial Reporting Interpretations Committee (IFRIC) Interpretation for the private sector side of accounting for Service Concessions (including PFI) in place by 2008/9 (it is currently in the process of being adopted by the EU). It is not yet clear how this Interpretation will apply to public sector procuring authorities, or how public sector auditors will apply it. This means that it is not possible, at this point in time, to provide a detailed technical explanation of the differences between the UK Standard currently used by the public sector, which is consistent with UK GAAP and focuses on the risks and rewards of ownership, and an IFRIC Interpretation that has yet to be developed for use in the public sector.

⁴ *United Kingdom: Staff Report for the 2006 Article IV Consultation*, IMF, March 2007, page 4.

The variations in on and off-balance sheet classifications are as a result of the varying nature of projects undertaken by individual public sector bodies, and the view of independent audit bodies such as the NAO and Audit Commission on those deals. For any particular deal the accounting treatment reflects where the accountants and their independent auditors see the balance of risks lying as between the public and private sector for individual projects.

Tax measures

Personal taxation, tax credits and child poverty

13. An important part of any change to the personal taxation regime must be that both winners and losers can identify, with ease, how they are affected by the changes stated within a Budget package. We recommend that, in future, this information be provided within the Red Book.

The reforms announced in Budget 2007 included eight separate measures designed to simplify the system, help pensioners, tackle child poverty and make work pay. The overall effect on a household will depend on the interactions between the different elements. So whether, or by how much, one might gain from these changes will depend on both individual and household characteristics. Therefore in this case it was not feasible in the space available to set out comprehensive tables of the effects of all the measures.

However, HMRC will, as usual, produce their specimen tables following Budget 2008 once all the tax, national insurance other parameters have been finalised. In addition, HM Treasury has provided detailed answers to Parliamentary Questions of the impact in specific circumstances that the Committee might find helpful.

14. Given that the personal taxation changes announced in this year's Budget will have an impact on the post-tax earnings of those who are childless and earning an income entitling them to claim Working Tax Credit, the need to increase the low take-up rate of Working Tax Credit among that group should be a priority. We therefore welcome the evidence of a recent increase in the take-up of Working Tax Credit provided by the Chancellor of the Exchequer, although we would welcome further details as to the increase in the take-up of Working Tax Credit in percentage terms. We also note the Government's efforts to increase take-up still further. However, we expect the Treasury to carefully monitor the impact of any increase in the take-up rate on the fiscal planning assumptions within Annually Managed Expenditure.

Increasing take-up of Working Tax Credit is a priority for the Government. HMRC are looking at ways of improving awareness of entitlement to WTC amongst this group, and encouraging more people to claim.

HMRC does publish provisional award figures twice annually, which include take-up numbers broken down by family type, income band, and hours worked. However, it is more difficult and time-consuming to produce figures for take-up rates in percentage terms, as these are calculated by comparing the total number of finalised awards to the total

number of people who are estimated to be eligible for tax credits. This latter figure is based on Family Resources Survey (FRS) data for the year in question, and as such, take-up rates in percentage terms cannot be produced until both the FRS and finalised tax credits data are available, which takes time. HMRC do however produce and publish these figures as soon as they are able, and will continue to do so. HMRC hope to publish the next set of take-up rates by the end of this year.

Since take-up rates have to be calculated after the fact and based in part on survey data, it is impractical to base fiscal planning assumptions on them. The Government's forecast assumptions are based on current caseload which, as the Chancellor said in his evidence, is higher than the figure used to calculate the most recent take-up rates, which relate to 2004–05. The impact on fiscal planning assumptions of any increase in caseload are of course kept under continual review.

15. We are concerned by the recently reported rise in child poverty in 2005–06 of 100,000 children, according to the Government's preferred measure. We welcome the extra resources allocated in the Budget, which it is estimated will help around 200,000 children out of relative poverty. We reiterate the recommendation made in our Report on the 2006 Pre-Budget Report that the Government, in reporting on the outcome of the Comprehensive Spending Review, state how it intends to meet the 2010–11 target to halve the number of children in poverty and where the resources will come from to meet that target. We welcome the Government's increased emphasis on improving incentives to work and recommend that, in reporting on the outcome of the Comprehensive Spending Review, the Government publish its analysis of the impact of improving incentives to work on meeting its child poverty targets.

The Government's welcomes the Committee's support for the measures announced in the Budget to reduce child poverty by 200,000.

As the Government set out in its response to the Committee's report on the 2006 Pre-Budget Report, the Government has most recently set out its strategy in the *Child Poverty Review*, published alongside the 2004 Spending Review. This strategy encompasses financial support for families, promoting work for those who can, and excellent public services to tackle material deprivation now and address cycles of deprivation. The Government has reported progress against its poverty and social exclusion agenda annually in *Opportunity for All*⁵.

The Government will continue to make decisions on the levels of financial support in Budget and Pre-Budget Reports.

16. Targeting those children in families at the very lowest income levels must be a priority for the Government, but is important to ensure that adopting a target to help such children does not detract from meeting the overall 2020 target. We recommend that, in publishing the outcome of the Comprehensive Spending Review, the Government set out its latest understanding of the dynamics of the very poor,

⁵ Published by the Department for Work and Pensions

perhaps in the context of the Government's work on its new deprivation index. We further recommend that, at the same time, the Government set out its views on the possible value of an additional target specifically focused on child poverty in the very poorest households (defined as earning less than 40% of median income) within the context of its target of eliminating child poverty by 2020.

The Government's medium term measure of child poverty was set out in *Measuring Child Poverty*⁶, following extensive consultation. Further details, including on the material deprivation tier of the child poverty measure, will be provided as part of the 2007 Comprehensive Spending Review. The Government will continue to keep under review the latest evidence on the dynamics of poverty.

Reported snap-shot incomes are not seen as a reliable reflection of the living standards of people below 40 per cent of median income, and they are not produced in accordance with National Statistics standards, therefore the Government does not report against a 40 per cent of median income threshold. However, *Opportunity for All* does report against a wider set of indicators, including those in persistent poverty.

17. We recommend that whenever the Government reports on complicated, multi-faceted responses to policy issues, such as child poverty, it should attempt to draw together all the analysis on all relevant policy instruments in the appropriate Budget or related document, so that it is transparent what the different policies are intended to achieve, at what cost, and how the whole package of policies will interact and achieve their purpose.

Regarding child poverty, the Government has most recently set out its strategy in the *Child Poverty Review*, published alongside the 2004 Spending Review.

More generally, the Government does as appropriate use either the Budget or related documents to bring together analysis and policy responses to particular issues, including the publication of specific supplementary documents alongside the Budget. All this material is available freely on HM Treasury's website.

In addition, as part of the 2007 Comprehensive Spending Review, each cross-cutting Public Service Agreement will be underpinned by a single, published Delivery Agreement setting out plans for delivery, the role of each organisation in the delivery chain, how progress towards the outcome will be measured, and strengthening accountability at all levels.

Corporate taxation

18. It is not clear whether measures such as the increase in the R&D tax credit and the introduction of the Annual Investment Allowance will have the desired beneficial impact on investment levels by small companies. We recommend that, prior to the 2009 Budget, the Treasury review the impact of these measures on business investment in order to ensure that the measures are having a positive impact on

⁶ Department for Work and Pensions, December 2003

investment and business growth, including the impact on small business that do not qualify for the R&D tax credit or the Annual Investment Allowance.

HM Treasury accepts the importance of evaluating the impact of both the increase in the R&D tax credit and the introduction of the Annual Investment Allowance. Similarly, the Treasury will monitor the impact of the Budget business tax reforms more generally.

The Government already has a comprehensive evaluation strategy in place for the R&D tax credit. An independent feasibility study, published last year (<http://www.hmrc.gov.uk/research/non-technical-summary.pdf>), established that econometric analysis of the effect of R&D tax credits on levels of business R&D would require a minimum of 10 years of data. The analysis of the impact of the introduction of R&D tax credits is therefore unlikely to be possible before 2010.

The same evaluation restrictions apply to the Annual Investment Allowance (and indeed any tax measure). The lags in data mean that, by April 2009, less than one year of tax data will be held by HMRC following the introduction of the Annual Investment Allowance. HM Treasury is unlikely, therefore, to achieve any quantitative analysis of the impact of the introduction of the Annual Investment Allowance by the Committee's recommended target of Budget 2009.

Missing Trader Intra-Community fraud

19. We welcome signs of progress by HM Revenue & Customs in combating Missing Trader Intra-Community fraud. We also welcome the agreement secured by the United Kingdom Government to a derogation from EU VAT law to enable the application from 1 June 2007 of a “reverse charge” to certain categories of goods that have proved attractive to fraudsters. We note that estimates of the additional Exchequer receipts from this measure appear to have been revised downwards substantially since the Chancellor of the Exchequer's initial announcement in evidence to us on 13 December 2006 and we recommend that the Government, in its response to this Report, provide a fuller explanation for this downward revision, including an assessment of the likely impact of the time-limited nature of the initial derogation. We expect the Government to remain vigilant for signs that fraudsters are switching their attention to categories of goods that are not covered by the new derogation from EU VAT law. We further recommend that, in its response to this Report, the Government set out the state of discussions within the EU about the possibility of subsequent, further extensions of the VAT derogation to combat Missing Trader Intra-Community fraud, both in terms of the range of goods covered by the derogation and the duration of the derogation.

The Government welcomes the Committee's support for its strategy to tackle Missing Trader Intra-Community (MTIC) VAT fraud. Some further clarification of the estimated revenue yield from the reverse charge, and other anti-fraud measures announced in this year's Budget, may be of use to the Committee.

Budget 2006 estimated that the reverse charge would yield around £500 million in 2007-08. In Budget 2007, this yield was revised to £135 million (and listed in Table A1.1 of the 2007

FSBR⁷, as a re-estimated measure that had been announced previously). The majority of the revision is due to the very significant reduction in baseline levels of attempted fraud since the original estimates were produced, reflecting the success of the Government's strategy in tackling this serious threat. The revised estimate also reflects changes to the scope of the derogation and the implementation date for the reverse charge, as well as an extra estimated effect on revenues arising from the delay to some VAT receipts from affected legitimate transactions.

The Committee also referred to the revenue yield of £50 million in 2007-08, relating to the extension of the VAT joint and several liability provisions. HMRC may use these provisions to make a trader responsible for another's VAT debt, if the trader in question knew or had reasonable grounds to suspect that VAT would go unpaid elsewhere in the supply chain. The estimated revenue yield (published in Table A1 of the 2007 FSBR, covering newly-announced measures) is in addition to that estimated for the reverse charge.

Returning to the reverse charge, the Committee notes that the derogation is time-limited (it will remain in effect until 31 March 2009). This does not affect the revenue estimates for the reverse charge, which, in line with normal practice, assume that the derogation will be renewed if it is still required in the future. Under the terms of the derogation, the United Kingdom is required to evaluate the impact of the reverse charge by no later than 31 March 2009 and will give further consideration to an extension or other changes in the light of that assessment. The Government is determined to build on the success of its strategy in recent months. The introduction of the reverse charge and the changes to the joint and several liability provisions will allow HMRC to respond more quickly and flexibly to any future mutations in the fraud.

Other issues

The Gershon programme of efficiency savings

20. In our Reports on Budgets and Pre-Budget Reports in the current Parliament we have set out an agenda for improvements in the reporting framework for the efficiency programme in three areas, relating to the central reporting of progress by the Treasury and the Office of Government Commerce, reporting by individual departments and verification issues surrounding service quality. We welcome the significant improvement in the first area since we last reported: the Government has responded positively to our recommendations for a departmental breakdown of efficiency savings in the Red Book and for further information on savings by work stream and by verification status. The response to our recommendations about the quality and consistency of departmental reporting on the efficiency programme should be apparent when 2007 departmental annual reports are published shortly. Regarding service quality, we welcome the further steps taken through collaboration between the Office of Government Commerce, the National Audit Office and the Audit Commission to establish agreed measures of service quality, and expect

⁷ Budget 2007, table A1.1, item b, p 227

further information about this work to be provided in departmental annual reports. (Paragraph 77)

HM Treasury welcomes the Committee's view that the reporting of the Efficiency Programme has improved and that positive steps have been taken by departments to assure themselves that service quality levels have been maintained. HM Treasury will await the Committee's view on efficiency reporting in departmental annual reports.

Aspects of the Comprehensive Spending Review

21. We expect to consider the implications of changes in the central management of the efficiency programme when we report on prospects for the Comprehensive Spending Review. (Paragraph 87)

HM Treasury will await the Committee's consideration.

22. In this Report, we have examined several aspects of the Comprehensive Spending Review, including the timing of departmental settlements, education spending, the efficiency targets for the period from 2008–09 to 2010–11 and the Treasury's definition or definitions of 'front-line' services. We intend to explore these matters further in our Report on the prospects and processes for the Comprehensive Spending Review.

HM Treasury welcomes the Committees further examination of these matters, and looks forward to receiving its report on the prospects and processes for the Comprehensive Spending Review.

HM Treasury
13 June 2007