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Treasury Committee

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strongly. Because you are not seeing forced selling, I think that is why house prices seem to have stabilised. I think that is quite different from saying house prices are now set to rocket back off again. Affordability measures did not really correct, even though house prices did fall quite substantially. So overall, I think the whole household de-leveraging process which is underpinned by the housing market will now happen in a much more orderly fashion because monetary policy is doing its job and working very well.

Q70 Chairman: Both the Governor and the IMF have called for a credible plan to reduce the deficit. What would you like to see in that plan?
Mr Weale: Could I repeat the point I made at the beginning that because the future is uncertain a credible plan has to include statements of what will happen in response to particular eventualities rather than simply being the sort of single line on a graph that this document is full of. It has to say that if the deficit does not go down then we will look at things like squeezing old age pensions, for example.

Q71 Chairman: You think politicians would do that!
Mr Weale: I am saying that is what I think would be needed to be credible. Maybe that tells you how likely we are to get a credible plan.

Q72 Chairman: We have got you all here for reality land!
Ms Ward: There needs to be a fiscal consolidation plan. As we have just pointed out, there were tax increases in the Pre-Budget Report, so we have exhausted some of the potential tax increase measures, but again it has gone into higher spending so we are back to stage one in terms of the size of the deficits, so it needs to be a fiscal consolidation plan. In terms of making it contingent on a recovery, the one thing I would just say is I think it is important we do not get into the potential pitfalls that you could argue Japan has experienced where for all the time that you are putting off the chance of fiscal consolidation, private saving keeps rising on the anticipation of future taxes and you never get the recovery that you are waiting for to consolidate the deficit. That has to be a real risk.
Mr Chote: I think, as we have discussed before, more detail on the outlook for spending. We have a rather opaque difference between what are projections and what are actually plans. If there were a clearer indication of the numbers that we know the Treasury produces on what they think the outlook is for some areas of spending they have little control over, more information on the outlook for public services, that would be helpful. Of course, for the period beyond 2013–14 we have much less of an indication, not even whether it will be tax and spending over which the remaining part of the tightening will be undertaken. Clearly that is very uncertain at that stage, but perhaps if there were a more indicative idea of how the Government would plan to go with that that would all sound more credible.
Professor Dow: Given the uncertainties, it would be a mistake for the Government to tie itself to a definitive plan, but more indication would be very helpful. The trouble is there are two audiences: there are the analysts and those in financial markets who take a particular view of the Government's fiscal policy and, on the other hand, there are households and firms who would perhaps be encouraged to withdraw from spending if they thought that taxes were going to rise significantly in the future. Perhaps that is a judgment that was made by the Treasury that given the uncertainties it was better not to say very much.
Chairman: Can I thank you very much for your evidence this afternoon. Illuminating? Let us see. Thank you very much.

Witnesses: **Mr Robert Chote**, Institute for Fiscal Studies, **Mr John Whiting**, Tax Policy Director, Chartered Institute of Taxation and Low Incomes Tax Reform Group, **Mr David Harker**, Chief Executive, Citizens Advice, and **Professor David Heald**, Professor of Accountancy, University of Aberdeen, gave evidence.

Q73 Chairman: Good afternoon. John, welcome back. Could you introduce yourself for the shorthand writer, please, and then we will go along the row?
Mr Whiting: John Whiting, Chartered Institute of Taxation and Low Incomes Tax Reform Group.
Professor Heald: David Heald, Professor of Accountancy at the University of Aberdeen.
Mr Chote: Robert Chote of the Institute for Fiscal Studies.
Mr Harker: David Harker from Citizens Advice.

Q74 Chairman: The PBR has promised support to tackle youth unemployment and ensuring that those aged over 50 can come back into work. Are there any other groups that you have found to be particularly hard hit by this recession?
Mr Harker: Certainly the people who are at risk of repossessions and people with debt problems and other people on low incomes.
Mr Whiting: I would just observe from a business point of view a lot of small firms are struggling with cash flow and to that extent the help that has been given over spreading tax bills has been quite effective.

Q75 John Thurso: I am not sure who to ask this question of. I really want to talk about the efficiency savings. John, would you like to tackle that? The commitments that the Government has set out in the PBR, which ones stand out as delivering most benefits and which ones look decidedly flaky?
Mr Whiting: I think my main reaction to those various efficiency savings is almost to look at it in terms of greatest risk. Sitting here as a taxman, the main area that concerns me, perhaps inevitably, is the potential cutbacks at HM Revenue & Customs, and to a certain extent the Treasury. Will that make the tax system more difficult to run? In particular, will it have quite a knock-on for those without advisers who

struggle to get their tax bills right, very often the low-paid who do not necessarily know exactly what to claim, how to claim the benefits to which they are entitled? I am sorry, I am answering your question in a rather different way, Mr Thurso. That is the main concern that I have with those savings, plus the inevitable one of will they be delivered.

Q76 John Thurso: Let me ask Professor Heald, which ones of the efficiency savings do you think have got real teeth and which ones are paper tigers?
Professor Heald: The major point I would make is very heavily flagged efficiency programmes from Gershon and operational efficiency plans, have created a degree of scepticism about whether efficiency savings are genuine or not. There is a very serious presentational issue in terms of saying, "this chunk of money will be saved in this particular way". My view would be that we have a much more decentralised public sector than we had 20 or 30 years ago. Essentially, the best people to make the judgments about where efficiency savings can be made are actually the people on the ground, so I would very much emphasise that when we get the next Spending Review, setting the spending envelopes, letting the people who run the organisations decide how best to achieve the cost savings that are required. I am very sceptical about these top-down plans.

Q77 John Thurso: What I am driving at is the evidence we have had in the NAO Reports where 25% of claimed savings have been highly dubious and another 50% questionable. In answer in this Committee, officials have pointed out that these are not cash savings, they are resource savings, and therefore it might not actually involve any money. As an old-fashioned businessman it seems to me that cash is king and if you are dealing with a deficit it is actually about cash. I am slightly struggling to understand this very large number of efficiency savings, whether it is real or a distraction.
Mr Chote: One point to bear in mind is that it is a significantly lower number than the Government has claimed in the previous two exercises. Gershon was 26 billion and they are claiming they are going to have achieved 35 billion over the period spanned by CSR07, so 12 by the standards of those two looks relatively modest. That is not to say whether when you quiz the NAO in the future they are going to be any more confident that a higher proportion than 25% of these are well-founded than otherwise. In a sense, it is quite striking how much of the low hanging fruit the Government thinks has already been picked.
Mr Harker: A few points on this. One is I think there is significant scope if departments are prepared to change the way in which services are delivered, and we have done some quite interesting work with the Cabinet Office and the Transformation of Government people particularly on accessing and processing benefit claims, but there is some considerable doubt about whether there is the will to bring these through in practice, so what we have seen in other areas—DWP, JobCentre Plus—has been a degradation in service levels. So many of the other things that are designed to improve economic performance, like getting people back into jobs, are built around personalisation, helping people as individuals find their way into work, and yet we are finding shorter and shorter periods of time devoted to those individuals and their interactions with JobCentre Plus. There is a lot of things hidden within the PBR and one of the things I was going to raise later is the 360 million cut to the Legal Aid budget, much of which is identified as efficiency savings in the courts system, but there is a fear that if that cannot be achieved there will be a reduction in eligibility for Legal Aid with a direct knock-on consequence for citizens who may have problems.

Q78 John Thurso: Would it be fair to say in any business if you went to the CEO and said, "I am going to save you large amounts of money but I do not actually have a plan to achieve it yet", he would chuck it out? Is that the level of scepticism you have about a great deal of these so-called efficiency savings?
Mr Harker: I think that is a fair point.
Mr Whiting: Yes.

Q79 Mr Love: The Government is also looking to deliver £16 billion worth of asset and property sales. Is that realistic?
Professor Heald: I have just spent a month in Australia and the story was running just before I left and there was a statement to the Commons with one of the Treasury ministers clarifying what those numbers meant. There is an important issue about the focus on net borrowing and the focus on net debt. One of the things which is underplayed in the Pre-Budget and very much underplayed in the Long-Term Public Finance Report is what is actually happening to Government net worth. We are obviously going to have a very difficult period fiscally compared with the experience of the last 10 years and it is very important that we do not reduce net borrowing and net debt by ways which build us future problems. If the public sector has got assets which it does not use well and it does not need then very clearly timely disposal of those assets is very sensible. If it is simply a matter of disposing of assets whatever the market value in the present circumstances, whether or not you need them in the longer term, simply to bring the borrowing numbers down—that is undesirable. Though clearly disposing of surplus assets when the market permits is a perfectly sensible part of fiscal consolidation, the idea that one can achieve a great deal by a fire sale of assets is just wrong.

Q80 Mr Love: That is one set of considerations, but another set, and one that I think quite a lot of people are sceptical about, is how attractive this all is to the private sector. Even making the assumption that they are selling them sensibly to get better use of the assets, is there any attraction out there? They have listed quite a lot of them in the PBR. Is there an attraction for the private sector to involve itself in some of these areas?

Professor Heald: I would not be in a position to comment about the private sector's interest in specific entities, but very clearly the public sector's land holdings are still very substantial and I am sure there are land holdings which in appropriate market circumstances would be attractive to the private sector.

Mr Harker: Just a small observation on this, which is a concern that places where the public interact with Government may reduce to a level that makes public service ineffective is an over-emphasis on savings achieved by shift to internet and the electronic base, which is good for a lot of people but not good for everybody, so the withdrawal of people like JobCentre Plus from towns and cities across the country is not going to be beneficial in the long run.

Q81 Mr Love: I am not sure I want to go down that route. One of the alternative concerns about this whole area, because they are not only suggesting full sale of assets but partial sales and the involvement of the private sector, and in many ways a lot of people would present that as being a positive thing to bring private sector expertise in, but there are also many concerns about the quality of public services that might arise. Is that a concern that is shared by anyone on the panel? A resounding silence! Perhaps I could ask Mr Chote, going back to a previous question about whether or not the Government can realise the 16 billion that it is talking about over the next four years, recognising that perhaps there may not be an appetite out there in the private sector for a lot of these assets and recognising some of the concerns that Professor Heald mentioned about whether or not it is appropriate to sell quite a lot of these assets. What is your view?

Mr Chote: I am not sure I would differ very much from David. As he absolutely rightly says, the key issue is do you in the long-term believe that these things are more effectively used in the public sector than in the private sector. There is the additional issue of is now the worst possible time to be trying to sell them. I remember at the time when the Chancellor was undertaking gold sales and that seemed to me a very sensible diversification of the holding of the Government's financial assets, but with hindsight the timing was not ideal.

Q82 Mr Love: Can we quote you on that!

Mr Chote: The other more general point is asset sales can only play a very small part in the solution to the fiscal problem; the fiscal problem is an expansion in the structural budget deficit which is a need to borrow more year in, year out, and asset sales are a one-off source of money, they do not deal with closing a gap between spending and tax revenue over the long-term. Asset sales are not the solution to this problem for the same reason that the direct costs of the bank bailout or of the fiscal stimulus package are not a problem.

Q83 Nick Ainger: What is wrong with bringing in the bonus super tax for discretionary bonus over £25,000 in an industry that has received a massive injection from the taxpayer?

Mr Whiting: The main concern I have is simply the practical one of defining exactly what it applies to. To my mind, it is a business judgment as to whether you bring one in, but having taken the decision to bring one in, and clearly this is an industry that has had support and the argument that the whole industry has benefited is clearly there, any tax should pass various tests, such as certainty, ie do we know precisely who it is going to apply to, and what. There is a timing element here that in an ideal world, and clearly we are not in an ideal world in many ways, we would know the answers to all those questions now so decisions can be taken, banks will know exactly what it is they are going to have to pay this tax on before they have to finalise their accounts. As I say, I think the main challenge is simply one of getting certainty as to exactly who and what is caught on this tax.

Q84 Nick Ainger: You said that your understanding of the current situation is that the tax bill will be higher than anything that the recipient actually receives, over 100%.

Mr Whiting: As always, it depends on what end of the telescope you look at these things from. I have tried to illustrate it fairly simply. If a bank decides to give a bonus of 100, and I will leave you to put as many noughts after that as you wish, to a recipient, then the bank is potentially paying 50, the individual has 40 in income tax, has 1 in National Insurance and, of course, the employer has another 12.8 in National Insurance, so one way of looking at it is there is a net flow of 104 give or take to the Treasury for that bonus. Of course, there is another way of looking at it, you can start factoring in corporation tax relief and other things.

Q85 Nick Ainger: They have said that it will not be taken into account, will it?

Mr Whiting: The bonus tax itself will not be deductible but, of course, the 100 bonus itself would be deductible. There are many ways of calculating it, but the main impact, whether you talk of it as a tax rate of over 100% or other rates, 50% or 75% as I have seen quoted, to my mind it is just giving the banks the clear message. As I alluded to, it is like the wartime, "Is your journey really necessary?" and this is, "Is your bonus really necessary?" because if you are going to pay it, it is going to be expensive.

Q86 Nick Ainger: The calculation is that it should raise £550 million, but given what is emerging about the impact, why would anyone want to end up paying that sort of penalty? Surely the idea is to change behaviour and address the real issue, which is the bonus culture and the risk element attached to it.

Mr Whiting: I go along with that. I think one of the main messages is, as I say, stop and think to make sure that the management of your whole bonus pattern, if I can term it that, is properly robust, properly geared to achievable objectives, and maybe

you take a pause on the bonus payments and come back and start paying them again next summer, in which case the bonus tax may raise very little. On the other hand, I know anecdotally that some banks are already saying they will be going ahead, so it will raise something, but whether it raises the £550 million remains to be seen.
Mr Chote: I think a very good question to ask Treasury officials when you have them before you is what do they think the total bonus pool would have been in the absence of this policy and how big do they think it will be as a result of it. The other point to bear in mind in thinking about how much money this raises is they have got an estimate of how much the bonus tax itself raises directly, but another way you could look at this as an anti-avoidance measure with regard to the introduction of the 50p rate. The Treasury may have had a concern that with the 50p rate some way off, the banks would have brought forward remuneration earlier in order to get it in before then and, therefore, this will have an impact on the amount you get from income tax as well as from the bonus specifically. I think the more you can tease out in terms of how much that will raise in both those areas would be very helpful because the impact on income tax does not appear scored as a measure, it will appear as a change in the forecast for future income tax revenues.
Nick Ainger: One tax partner has claimed that it is probably the most easily dodged tax he has seen. What is your view on that?

Q87 Chairman: That was not you, John, was it?
Mr Whiting: I am no longer a tax partner, Chairman, so it certainly was not me! There does seem to be one message in this which is 'delay', because clearly it is a levy that only applies until April, though it may get extended and clearly we do not know whether it will be extended. Providing there are no promises, no undertakings, it would appear you can just get out of it by not paying, as simple as that. I know there has been a good deal of speculation that, "Oh well, I can pay it in this way or I can take a consultancy agreement or give something completely different other than a cash bonus and that gets round it", but from the discussions I have already had with HM Revenue & Customs and the Treasury they think they have got all those things fairly well-plugged and the legislation is drafted in such a way that if they find subsequently something that seems to get round it, it looks like they can bring in a Statutory Instrument and backdate it to 9 December which will catch it after all. Publicity could generate closure!

Q88 Chairman: If it is just until April next year, banks could wait and just give an enhanced bonus after April.
Mr Whiting: On the surface of it that seems to be the case.

Q89 Chairman: So they do not give any bonus now but they give an enhanced one.
Mr Whiting: We are into the practicality of it, of course, as to whether the employee and employer would be happy with that situation and, of course, it remains open that this tax may be extended beyond April.
Chairman: If your employer said to you, "Just wait for four months and I will give you that bit extra"—

Q90 Nick Ainger: In box 3.2 it says: "The Government will consider extending the period of the charge so that the tax remains in place until the relevant provisions of the Financial Services Bill come into force". If they have not come into force, then presumably they will get extended.
Mr Whiting: They may well get extended. Coming back to your point, Mr Ainger, I think it depends on the behaviour as to what exactly happens.

Q91 Ms Keeble: I want to ask David Harker first of all. The Government has maintained the interest rate on the SMI scheme, how important has that been for keeping down the repossession rate?
Mr Harker: I think it has been very important indeed. The people that we are seeing at the court desks, over half of them are paying more than 6.08%, which is strange given the general level of interest rates but not strange given that you are talking about people on lower incomes, many of whom are sub-prime led borrowers. It has been very important and it is greatly to be welcomed.

Q92 Ms Keeble: Good. Have you seen any sign of an increased repossession rate coming through now or not because sometimes you do get an early warning, do you not?
Mr Harker: We think it is going to continue at quite a high level for some considerable time but, no, we are not seeing any signs of it increasing. It increased early on but now it is levelling off and that is partly to the credit of some of the Government measures and forbearance by the banks. At our court desks, of the people who appear before us we have managed to prevent 80% of them being repossessed.

Q93 Ms Keeble: Thank you. Robert Chote, I just wanted to ask you a bit about your analysis of what is going to happen to benefit rates. You talked in particular about child benefit, disability benefit and working tax credit and that the impact of the profile of the changes Government has made is that it will be a 1.5% cut in 2011–12. I wonder if you could talk us through that a bit and also say exactly which benefits it applies to.
Mr Chote: I do not have—

Q94 Ms Keeble: The child tax credit as well as working tax credit and child benefit.
Mr Chote: I do not have that on me. The issue really is the Treasury has basically said that because you have negative inflation at the moment they will smooth this out and provide, in effect, in a one-off additional payment for one year. The difficulty is the people who are receiving the real increase next year,

do they realise that is a one-off addition and are they willing and able to budget accordingly, or do they see that coming in and assume that it is a permanent change and then find themselves facing what feels very much like a cut the year afterwards. I can understand the Treasury's motivation for doing this and it will be helpful in the short-term, more helpful than the real cut would have been, but the problem is if people absorb it into their spending plans and do not realise that it is a one-off measure.

Q95 Ms Keeble: Do you think it is a helpful way to manage people on low incomes or do you think a different approach would have been better? John, have you got something you want to say on that?
Mr Whiting: From a low incomes' point of view nobody is going to argue with extra money being given to them and money being brought forward, but it is a presentational issue of realising that this is money brought forward, it is not that you are getting a rise this year and you are likely to get further rises in the future. It is: "This is an advanced payment, as it were, and please do not think you are getting any more", whereas I suspect that what a lot of people will have heard, and David Harker may comment, is "this is very nice this year and I can look forward to a similar increase in the benefits in the future".
Mr Harker: It is broadly welcomed provided that in future years if we have continued deflation, which granted is unlikely, it does not result in a cut. If it continues to rise in money terms, which I think is what is likely to happen, it is welcome and we are not among those who think this is just a bit of window dressing, it gets more cash in people's pockets now.

Q96 Ms Keeble: Can I ask one more question. In your slide where you show these changes you also show the rolling out of the free for school meals for primary school children on low incomes. I just wondered why you put that together and whether you were looking at the impact on child poverty or trying to look at the effect that all of these changes would have on low income families and child poverty and what your view is on that.
Mr Chote: It was specifically looking at it in the context of the child poverty target. Our best estimate is that the measures in the PBR probably move the Government about 30,000 closer to the target for 2010–11, so that is clearly making a relatively small difference compared to the figure that was expected. It would mean that after rounding child poverty might be expected to be 2.2 million rather than 2.3 million.

Q97 Ms Keeble: Is that relative or absolute?
Mr Chote: Relative, the headline relative measure compared to a target of 1.7 million, so it nudges you in the right direction but does not make a huge difference. There are also some measures which affect median income, so the point to which you are relative does have some impact. Child benefit, for example, pushes up median income but it is still net child poverty reducing because it is proportionately more valuable to people at the bottom. Overall, if you take the measures together it does not make a huge difference to the child poverty, it does not bring us much closer.
Mr Harker: While it is welcome in terms of child poverty, it does increase the marginal withdrawal rate. What we are seeing now, and I was doing some sums on this earlier today, is a lone parent with two children who is working 20 hours a week for £6 an hour is better off than the same person working 40 hours a week for £10 an hour. You are having the benefit which comes both from this and earlier when child benefit was disallowed and was not counted towards housing benefit and council tax benefit. These are good measures in terms of putting money into the pockets of people on low incomes working a relatively short amount of time, but the withdrawal rate increases. We have reworked the tables on 5.3 which show that if you started at a different year and showed different years you are actually seeing an increase there, so people are losing more than 90%.

Q98 Ms Keeble: This is just for clarification because we will get your figures once we get the transcript. When you say child benefit, are you just talking about child benefit or are you including child tax credit in that?
Mr Harker: I am including everything.

Q99 Ms Keeble: You are including all the different package of benefits?
Mr Harker: Yes, and the point at which you start to lose those and you lose the free school meals, which is why in a better world you would have a universal free school meals service, and why we welcome the pilots that are trying that and we will see the impact that has in certain areas.

Q100 Mr Fallon: Have you made any estimate of the number of people who are now going to be moved into the top rate of income tax as a result of freezing the threshold?
Mr Chote: Yes. There are two ways of looking at this: how many people are in the various bands at 100 and 150, and then there is the specific freezing of the 40p.

Q101 Mr Fallon: Let us deal with the 40p.
Mr Chote: Our estimate is that the Pre-Budget Report measure would increase the number of people above the higher rate threshold by about 0.3 million. We already knew there was going to be a freezing of the basic rate limit in April 2011 and if you include that you get 0.5 million, so 0.3 or 0.5 if you include the other one. That would move you from 3.3 million to roughly 3.5 million above that threshold.

Q102 Mr Fallon: It is roughly half a million then, is it?
Mr Chote: Yes, taking the two measures together. Do you want the 100 and 150?

Q103 Mr Fallon: No, I do not, because we are short of time. Overall, looking at the effect of the PBR on UK households, who are the main winners and losers?
Mr Chote: The National Insurance increase will be the largest money raiser of the lot and that has an impact that is widely spread across the population, it does hit higher earners more heavily than low earning ones but it is more broadly spread. If you look at the set of measures that have been announced, both PBR and in the other post-crisis measures, then you are hitting the top harder because of the 50p rate and the measures that are more at the very top. The National Insurance change is notable in getting the pain quite extensively across the population and not focusing it quite so firmly on the very top.

Q104 Mr Fallon: Are there any particular winners?
Mr Chote: No-one leaps to mind.
Mr Whiting: You have to look at some fairly detailed measures and within some of the tweaks to tax credits there are one or two useful things but it is certainly not a general 'winners' PBR.
Mr Chote: I guess one gain—this is a rather techie tax credit point—is when people change family circumstances. When a couple splits up there is a danger that you end up receiving overpayments for a while if you do not tell the authorities that you have split up.
Mr Whiting: That is paragraph 13 of our memorandum.
Mr Chote: That seems a welcome change but it is not big money.
Mr Harker: It is more a question of its impact on the individuals where they would have lost and been substantially overpaid and that would have been reclaimed from them, but they could not have made a back claim for what they were entitled to from their change of circumstance, and this offsets the two things. It is a technical point but it is going to have an impact.

Q105 Mr Fallon: Which way? Will it make it easier for people to split up?
Mr Harker: No, it does not have any impact on whether they choose to split up. It works whether they split up or have a new partner. If they were not notifying the authorities immediately and overpayment accrued that would be reclaimed from them and possibly only at the point that was being reclaimed from them did they realise they should have notified a change of circumstance. They could not backdate the claim for what they were entitled to and, therefore, they ended up worse off and with disruption to lifestyle and the fear of having to repay a substantial amount of money. It is a welcome technical change which helps some people whose family circumstances are changing.

Q106 Chairman: Any other questions from my colleagues? To John and David: HMRC have estimated the total tax gap to be £40 billion a year, or 8% of expected tax due. Do you think that estimate is reasonable?
Mr Whiting: It is reasonable as an estimate between the traditional two very big numbers of what they take and what they thought they were going to get. It is fair enough to put a figure down to try and work out strategies for closing it. One can pick holes in various bits and pieces of it but at least we have got a figure from them as to where their estimates are.

Q107 Chairman: Are there any flaws in the methodology of that?
Mr Whiting: One is always concerned about one of the starting points, which is the estimated tax take—that is almost more for Robert than me—and whether those figures are as up-to-date and in line with different ways of employment and working as perhaps they should be because sometimes in the past estimates of tax yields have been a little behind the curve in terms of changing working patterns, for example.

Q108 Chairman: In the PBR the Chancellor announced that £5 billion of existing revenues would be protected through anti-avoidance measures, however there appears to be no detail in the PBR document on that. What are your views on how the Government might protect its revenue?
Mr Whiting: I think what is going on with anti-avoidance is basically pretty effective. Going back to the disclosure regime that was introduced in 2004, they are seeing a good flow of disclosures and, indeed, they are talking about extending it. As a result of those there are anti-avoidance measures coming in. What we are seeing is good protection of revenues and quick action, and it is interesting that in this year's PBR there is more attention being paid to controlling evasion, which arguably has had slightly less of the attention than it perhaps should have done. So talking about forming a study group to look at the informal economy and how the people in it can perhaps be encouraged to come back into the proper tax system is very welcome and shows that the Revenue are concentrating more on evasion. One can also look at what is being done on offshore tax evasion as well.

Q109 Chairman: David, what strikes you about this PBR, either by its inclusion or omission?
Professor Heald: That broadly what the Chancellor did was the right thing, which was virtually nothing. At this stage of the macroeconomic situation I think that was the right response. The big issue which was not surprising was the lack of forward public expenditure plans. I have said to the Committee quite often in memoranda over the last few years that whereas the Spending Review system has actually been beneficial in terms of better forward management of public spending, I think it has had a very serious effect on parliamentary scrutiny of public spending. If you go back to the days when there were annual public expenditure White Papers published in February or March there was a much bigger dialogue between Parliament and the Treasury about the detail of the numbers. The Spending Review system with the habit of having a Spending Review in July, marginalises Parliament.

Also, it looked as though with Spending Reviews in 1998, 2000, 2002 and 2004, that we had established a pattern of a Spending Review every two years covering three years forward, but there was not a Spending Review in 2006 or 2009. A lot of the debate that we are having about the fiscal consolidation is without anything in the way of detailed numbers because the Spending Review cycle has been broken. The UK Government basically believes that it controls—the Executive controls—the process of setting public expenditure plans, and Parliament has very little role in that. So although I am not surprised at the absence of future public spending plans, it does point to a fundamental problem. The other more specific issue I would raise is that in the macro discussion you had before this micro discussion, there was a reference to what was going to happen to net public investment, where both gross public investment and particularly net public investment are going to fall dramatically over the period. But one of the points to notice is that the Treasury has decided in its spending plans that PFI will still be off-balance sheet because the Treasury will be following the Eurostat rules—the national accounts rules for PFI—and not the International Financial Reporting Standards for financial reporting. So one has the strange position that, whereas a lot of PFI is going to be within the Estimates, it is going to be within the accounts but not within the budgets. That creates a worry not that PFI is necessarily undesirable—PFI done for value for money reasons is highly commendable—but there becomes a fear on my part that there will be a renewal of the arbitrage we have seen between different accounting rules in the past which enables you to get PFI off balance sheet. We will now get arbitrage between the national accounts rules, which are run by Eurostat and which are actually very weak, and the International Financial Reporting Standards. So I think that Parliament ought to be watching very carefully both what happens to public investment, because big cuts in public investment would just lead to future problems, but also that the Government does not try and replace some of that fall in public investment with PFI chosen solely to get round the rules rather than because it is good value for money.

Q110 Chairman: Yes, very good point. We have the Line of Sight Project?
Professor Heald: The Line of Sight does not help that.

Q111 Chairman: But it makes it more transparent. There is an element of that, if we get there by 2015.
Professor Heald: But the main Clear Line of Sight document was published in March, the consolidated budgeting guidance was published in June, and it is the consolidated budgeting guidance which in my view completely breaks the spirit of Clear Line of Sight. So, in a sense, the Government is looking for concessions from Parliament about enabling the Government to simplify presentation, but at the same time, when it suits the Government, the Government is devising ways of complicating the presentation.
Chairman: A note on that would help us.[1]

Q112 John Thurso: If I have understood this, basically accounting is IFRS, budgeting is not, and what you need is for both to be IFRS no questions asked?
Professor Heald: Yes.
John Thurso: Okay.
Chairman: Any other questions?

Q113 Jim Cousins: I am completely confused now about what the Government is proposing here about the introduction of the new private pensions, the personal contribution pensions. We had leaks at the weekend that there had been a row. It is difficult to work out what is in the PBR Book as compared with the Chancellor's statement. Are you any clearer about whether these things will come in in 2012?
Mr Whiting: Not really because in effect there are three things going on. One is the restriction of tax relief for very high earners. The second is a lot of comment about anti-forestalling, ie stopping people trying to put money in in anticipation of that, and rather lost in the wake, is of course the overall scheme you are alluding to, Mr Cousins, and so far as I can see that has just gone back a year but it has not had the publicity and the clear statements I think it deserved.
Chairman: We are still confused.

Q114 Jim Cousins: You think it has gone back a year?
Mr Whiting: I think it has gone back a year.

Q115 Chairman: We will ask that tomorrow.
Mr Whiting: That is really what I am trying to say, Chairman. I think it has got pressed down with all the concentration on the high earners' restriction and it has got rather confused messages and it just was not as clearly stated as it should have been in the PBR.
Mr Harker: In the DWP they are still planning to deliver it.

Q116 Jim Cousins: When?
Mr Harker: In 2012, is my understanding.
Jim Cousins: So they do not realise it has gone back a year?
Chairman: I think we will get that tomorrow. Thank you very much for your time, it has been very helpful.

[1] Ev 78-80