HOUSE OF COMMONS

Treasury Committee

Oral evidence: HM Treasury Annual Report and Accounts , HC 630

Tuesday 2 September 2014

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Watch the meeting

Members present: Mr Andrew Tyrie (Chair); Steve Baker, Mark Garnier, Stewart Hosie, Mr Andrew Love, Mr Pat McFadden, Jesse Norman, John Thurso.

Questions 1 - 73

Sir Nicholas Macpherson, Permanent Secretary, HM Treasury, and **Kirstin Baker**, Finance and Commercial Director, HM Treasury, gave evidence.

Q1 Chair: Good morning. Thank you very much for coming in to see us, Sir Nicholas. It is some time since you have seen us, so it is certainly a due meeting, if not overdue. Can I begin by asking you about the Verde transaction? Has any improper contact been seen by you or by any of your staff by politicians with respect to the Verde transaction?

Sir Nicholas Macpherson: I am not aware of any improper behaviour.

Q2 Chair: Would you expect that to have been brought to your attention?

Sir Nicholas Macpherson: I would.

Q3 Chair: What would you do if it was brought to your attention?

Sir Nicholas Macpherson: A number of avenues would be open to me. I think my first action would be to discuss it with the Chancellor, to whom I am accountable. If I had further concerns, I would raise it with the head of the civil service or the Cabinet Secretary. The fundamental point is that, as accounting officer, I have to act legally at all times, and if there is any question of officials being asked to act in a way that was—

Chair: Or if they see politicians acting in a way?

Sir Nicholas Macpherson: —yes, which was irregular, then I have also the option of seeking a direction, which would be published and shared with this Committee and the PAC.

Q4 Chair: Were any allegations of this type made to you by others involved in the transaction at any time? Did anybody come to you and say, "We think this has been going on"?

Sir Nicholas Macpherson: I do not recall anybody acting in that way.

Q5 Chair: Can I turn to the sale of the stakes in Lloyds? The first tranche of the share sales took place in September last year. It was described as a profit for taxpayers by the Chancellor, but the NAO concluded that once the cost of borrowing the money to buy the shares has been taken into account, the sale represented a loss of about £220 million. What do you think is the fairest way of describing that transaction?

Sir Nicholas Macpherson: Making the calculation of profit and loss in this case is fiendishly difficult because there are a whole lot of different valuations you can place on the original transaction. As with all estimates such as this, it is perfectly reasonable to look at the paper profit. Equally, it is perfectly reasonable to look at the costs in terms of the borrowing that was required to finance the deal and take those into account. It is one of those cases where both the Chancellor and the NAO are right in their own terms.

Q6 Chair: Okay, but do you think the cost of finance should be considered before deciding to sell the next batch? That is the point you are making.

Sir Nicholas Macpherson: No, I think that, as successive Governments have made clear, we are not in this business to make a profit. The sooner we can return the bank to the private sector in an orderly way the better and we will see when we dispose of the final shareholding.

Q7 Chair: The second tranche was sold in March this year and generated £4.2 billion, but the shares were sold at a higher discount, weren't they? What did UKFI advise the Government about that?

Sir Nicholas Macpherson: I will turn to Kirstin in a minute because she is on the board of UKFI, but this comes back to how you sell these shares. Generally, the more you sell the bigger discount you have to seek. The more often you sell them the bigger discount you are going to have to seek simply because the market is more saturated in Lloyds shares. UKFI's view was that this was a good opportunity to sell, it was a good price, and we agreed with them.

Q8 Chair: Is there anything you want to add, Ms Baker?

Kirstin Baker: No. I think Nick is right. There is a trade-off between the size and the discount, and UKFI's judgment at the time was that this was a good time to sell; this was a good price for the amount that we would be able to sell. This was a very significant transaction. I think it was the largest transaction of its type, certainly in the UK and possibly in Europe. The discount that we got for that was very tight for such a large transaction.

Jesse Norman: Sir Nicholas, could I move to another privatisation, that of the Royal Mail on which Treasury is involved? Could you tell me who the financial advisers were to the Treasury on the Post Office/Royal Mail transaction?

Sir Nicholas Macpherson: I am not sure we retained our own financial advisers simply because this was a transaction run by the Shareholder Executive, which is part of the Department for Business, Innovation and Skills, and it was the Department for Business, Innovation and Skills that was ultimately responsible for the transaction. Obviously the Treasury has in-house corporate finance expertise, but my recollection is we did not retain our own advisers.

Q9 Jesse Norman: Is that not slightly odd? Historically, the Treasury has been very close to large privatisations; it has run them itself and it has had advisers from the City itself. Why was it different here?

Sir Nicholas Macpherson: The way the Government organise their shareholdings is through the Shareholder Executive, which is an organisation that provides an opportunity to bring together corporate finance expertise in one place. If you are saying that the Shareholder Executive ought to be somewhere else, like the Treasury, that is an interesting suggestion and one that may be worth thinking about for the future.

Q10 Jesse Norman: I was not saying that, though I note you are floating that balloon, Sir Nicholas, interestingly. Can I ask what you and your colleagues thought about the quality of the advice given to the Shareholder Executive on that transaction?

Sir Nicholas Macpherson: I have not discussed that issue with colleagues. This was a difficult transaction to price. Inevitably, with a privatisation like this, Governments tend to err on the side of caution when it comes to pricing. Clearly, there are lessons from it.

The other point I would make is that there are precedents that once the bulk of a sale has taken place the Treasury takes responsibility for further sales. For example, we have recently taken on responsibility for Eurostar and if there are further sales of that the Treasury will be in the lead. I think it is important as and when further sales of the Royal Mail take place that all Government expertise is brought to bear on the problem.

Q11 Jesse Norman: That is interesting. Did you work on any privatisations at an earlier stage of your career in the Treasury?

Sir Nicholas Macpherson: I did not, actually, but people such as John Kingman, who is a Second Permanent Secretary, is a massive expert in this field.

Q12 Jesse Norman: Sure, I don't doubt it. Since the normal intention of any book building is to have a multiple of two to three or four times the number of shares, since the point of a book building exercise is to determine at what price shares can be sold within a range and since this book building had a 24 times oversubscription, it is pretty clear that regardless of anything else, just from a technical standpoint, it was a fiasco. I think the

Treasury ought to be looking quite closely at the question of whether or not the Shareholder Executive was properly advised and how much money was paid to the banks. Do you have any views on that?

Sir Nicholas Macpherson: As I say, I think there are lessons to be learnt. I know it is much easier to sell shares in a company where there is already a market, but I am certainly very proud of the Treasury's role in relation to selling Lloyds shares. Even the NAO, which finds it very easy to criticise most transactions, has given it very much a clean bill of health. The challenge for government departments is about how to get the best out of your advisers. The Treasury went through quite a big learning experience in the financial crisis. We ran up quite large bills with Northern Rock, but the critical thing is to learn from that and not to repeat the mistakes.

Q13 Jesse Norman: Why hasn't the Treasury hauled the Shareholder Executive and the Department for Business, Innovation and Skills over the coals on this issue?

Sir Nicholas Macpherson: Regular discussions go on with both those organisations, and should there be another sale I can assure you that we will be engaging very intensively with them.

Q14 Jesse Norman: Good. Could I also request that in that review, if you do conduct any—or will you conduct some kind of review? This would be internally. It would be quite helpful, I think. The other area where you could look that would be interesting from an external standpoint would be the status of the so-called gentlemen's agreement that ended up with virtually no long-term shareholders among those who had specifically pledged to buy and hold on to the shares. When I last checked, four of the 16 banks still held the shares. They were supposed to be long-term shareholders.

Sir Nicholas Macpherson: It is important to learn from that. As I say, with Lloyds our allocation was informed by similar considerations, and I think the analysis that the NAO has done ex post suggests that the sort of people you expect to be long-term holders generally are long-term holders. There are clearly lessons to be learnt.

Q15 Mr Love: Can I turn to deficit reduction plans? The Institute for Fiscal Studies tells us that only 46% of the deficit reduction plan has been implemented by the end of the last financial year. Is Government sufficiently focused to be able to deliver the reduction plan by 2018-2019?

Sir Nicholas Macpherson: I think the Government are very focused on this issue. Inevitably, we are reaching the end of this Parliament, and I think it has become clear that the deficit reduction plan will need to continue well into the next Parliament, so whoever forms the next Administration is going to have to be incredibly focused on it. We are due a spending review in 2015, so we will hit the ground running in a new Parliament, whoever the Administration is.

That said, the Chancellor attaches the highest priority to implementing a plan. Only yesterday afternoon I was meeting him to discuss how we would continue to get the revenues in and bear down on expenditure, so we are very focused.

Q16 Mr Love: I am interested in the bearing down on expenditure. What challenges do you think are out there? What are the main challenges?

Sir Nicholas Macpherson: The biggest challenge, and it is one that I think will need to inform all parties' manifestos, is that the greater proportion of public expenditure you seek to protect in real terms, the fewer areas of public spending there are to reduce. That is probably pretty essential, alongside taking measures on the social security welfare front, if we are going to deliver the spending plans that are set out in the Red Book.

Q17 Mr Love: The Institute for Fiscal Studies also tells us that other current expenditure—that is departmental expenditure—has only achieved 36% of the overall reduction plan. We keep hearing and reading in the newspapers about challenges out there in health and defence and other departmental expenditures. Are departments coming to you to express their concern that they may not be able to achieve these targets?

Sir Nicholas Macpherson: Not on any large scale. Looking back on it, I have been surprised how relatively easy it has been to implement the reductions so far.

Mr Love: But that is because you have only got to 36%.

Sir Nicholas Macpherson: Exactly. This is a long game and the view always is that you have the low-hanging fruit and then it gets more difficult. The reductions have been sustained. As you say, there is a lot more to do and this will go on through the next Parliament, but so far departments have been pretty good at delivering their plans. That includes departments like the Ministry of Defence, which historically has found this quite difficult.

Q18 Mr Love: Which departments are sending signals to you that this is going to be a major challenge; which ones are creaking at the seams? We read about the problems in health, and that is already ring-fenced, which means that other departments have to find additional expenditure cuts. Where are the real difficulties emerging?

Sir Nicholas Macpherson: There is no specific department that is literally heading towards overspends. Spending is under control and the Treasury, since its problems with local authorities in the 1980s, is reasonably good at controlling public spending. The more interesting point that I think you are driving at is which areas are seeing a recognisable deterioration in service or the quality or level of service. You are as well placed as I am to take a view on that from your constituents, but on the face of it, certainly on the data I look at, the outputs of public spending have held up pretty well. Inevitably, there are areas like health, where demand is always high, where there will be pressures but there were pressures there even in the good times. I would not seek to identify a particular area that is causing particular grief.

Q19 Mr Love: That causes me some concern because what we are looking at here is record reductions. This is something that has never occurred in the past and you are telling us that the Treasury is relaxed about what is happening in different departments.

Sir Nicholas Macpherson: No, do not get me wrong, I am not remotely relaxed. This is difficult and there are difficult trade-offs.

Q20 Mr Love: But you cannot tell us which departments are creaking at the seams.

Sir Nicholas Macpherson: What I am telling you is: so far so good. That does not mean it is not going to get more difficult from here on. We have also been quite considerably helped by some pretty big decisions early on in pensions reform in the public services, wages control in the public sector, generic decisions on benefit up-rating. The challenge in the next Parliament is that if you cannot rely on some of these generic decisions that can help alleviate the pressure on public spending, it does get more difficult.

Q21 Mr Love: I am going to come to one of those just in a minute, but let me ask finally in this regard: we expect the Treasury to manage this process, to be actively engaged, yet you are telling us that there are no particular departments that you might be concerned about. Are you reassuring this Committee that the Treasury is on top of the challenge that is faced in meeting these reduction targets up to 2018-2019?

Sir Nicholas Macpherson: I think the Treasury has raised its game on managing risks across public spending. We have more sophisticated mechanisms both for assessing the progress of major projects but also on monitoring departmental expenditure and considering where the biggest risks arise. I am not claiming any of this is particularly easy. I am not claiming that there are not painful pinch-points in certain areas, but so far I think it is fair to say that we have managed to reduce public spending without upsetting the citizens who both pay for and benefit from those services to any large degree. That could change and I am well aware from the past that you keep pressing down on something and suddenly something goes ping, at which point things look very different indeed, but I do not think we have reached that point at this stage.

Q22 Mr Love: One final question: you certainly have not reassured me that you are on top of our current expenditure reduction plan that only has 36% and has a long way to go, and I am sure there are real challenges out there that you are not indicating. You mentioned other issues that might help you in this process. In the Autumn Statement 2013 under "Totally Managed Expenditure" it states, "It would, of course, be possible to do more of this further consolidation through tax instead". Are you actively discussing that issue and how did that end up appearing in that Autumn Statement for 2013?

Sir Nicholas Macpherson: Governments continually review the balance between tax and spending. When seeking to reduce a deficit, there is a policy choice in the balance you make between each of those areas.

Q23 Mr Love: Have you discussed the possibility that if the challenge of meeting the expenditure reductions is too great then there will be a discussion of further tax increases to meet the deficit?

Sir Nicholas Macpherson: At present, we are on target to deliver the spending reductions. Inevitably, future discussions will look at both tax and spending and different Governments will prioritise different areas.

Q24 Mark Garnier: Sir Nicholas, can I get back to privatisations and, in particular, RBS? You are planning to retire the dividend access share at a cost of £1.5 billion. What has prompted that decision now?

Sir Nicholas Macpherson: It is part of beginning to move the bank back to a steady state, getting it in a position where I suspect in the next Parliament you begin to sell shares. This is part of the normalisation process. You will recall there was quite a major review of RBS last autumn, reflecting the work of the Chairman's commission and, indeed, I think the views of this Committee. I am feeling quite optimistic that under the new management RBS is beginning to make progress, so it was in that context.

More generally, you reach a point where something like the dividend access share was a good idea back in 2008 but the world has moved on. I think keeping it in place, not least because we own over 80% of the bank, was not helping us particularly.

Q25 Mark Garnier: It is not an indication of an immediately imminent sale; it is just indicating one on the horizon?

Sir Nicholas Macpherson: No, no, no. No, I would be surprised if there was a sale any time particularly soon, but it is, in a sense, a statement of intent that we are now getting back into the recovery phase for RBS.

Q26 Mark Garnier: The Chairman asked a few questions a bit earlier about Lloyds Bank and the sunk cost fallacy. Do you anticipate that the taxpayer will lose money on the sale of RBS shares or is the intention to try to wait until such time as a profit will be shown in one form or another?

Sir Nicholas Macpherson: As I said before, the objective of the intervention back in 2008 was not to make a quick turn for the taxpayer. It was about supporting the financial system at a very difficult time. Obviously, it is nice to make a profit. That is always quite high in my mind, representing the organisation that represents the taxpayer, but you are not seeking to make a profit at any price. Reflecting discussions with this Committee, we do have an interest in a well functioning banking system, too. I can remember saying confidently to the PAC about five or six years ago that I was confident we would make a profit. I still would like to think we would make a profit but it is taking quite a long time.

Q27 Mark Garnier: It is not a deal breaker to on-selling it?

Sir Nicholas Macpherson: No. It is important to get these banks back into the private sector. I am afraid the one thing that I am convinced of is that the only organisation worse at running banks than bankers is the state, just because a whole lot of perfectly understandable political pressures get in the way of commercial decisions. I do look forward to the point where these banks are back in the private sector.

Q28 Mark Garnier: Have you made any progress with appointing advisers on an RBS sale, either formally or informally?

Sir Nicholas Macpherson: Not to the best of my knowledge because this is still a long way off, but Kirstin is on the board of UKFI. Do you want to say anything?

Kirstin Baker: No, there are no advisers appointed for an RBS sale.

Q29 Mark Garnier: Following on from Mr Norman's questions about the Post Office privatisation and that actual book-building exercise, would either of you have any idea of what underwriting fees were payable on the Post Office privatisation?

Sir Nicholas Macpherson: Not offhand. I can find out for you.

Jesse Norman: 3% or 4%.

Q30 Mark Garnier: There is an interesting point with taxpayers' money in this kind of stuff. The City is getting a slightly strained reputation when it comes to privatisations for the simple reason that we are seeing deals that are 26 times or 24 times oversubscribed and a 4% or 3% underwriting fee is being charged. Clearly, an underwriting fee is there for the risks that would be taken by those people who are prepared to underwrite it that if the transaction failed they will then pick up the shares. But I do not think an underwriting exercise has been invoked for many years, and so at the end of the day the underwriting fee that is being paid out is a fee that is basically an opportunity where the lead managers or the lead underwriters can buy in favours from valued customers. I think that when it comes to the privatisations of RBS and the transactions on Lloyds, and indeed other transactions that may happen, there will be a very strong backlash by taxpayers if they understand that 4% of their money that is being paid on the transaction would be perceived—it is not quite how it works but what would be perceived—as backhanders to investors. Previously in this Committee, I have asked people from the City who are involved in this whether they would be prepared to do the RBS or the Lloyds transactions for free, because of course they benefited very much when the financial system was bailed out by the taxpayer. They laughed in a slightly patronising and condescending way and said, "No, no, no, that is not quite how we do things in the City."

I am very interested to know what efforts are being made by the Treasury to try to secure an advantageous arrangement with the sales brokers and the underwriters in order for the City to at least demonstrate that it is prepared to give something back to the taxpayer and do these transactions for nothing by way of showing that it recognises the fact that huge amounts of taxpayers' funds have been used to bail out the financial system, that there will be a loss to the taxpayer, and that to charge the taxpayer afterwards to unwind this bailing out would be quite insulting. Discuss.

Sir Nicholas Macpherson: That is a very good point. I think it was interesting that when we came to sell Lloyds shares we did get some very advantageous deals. I am not saying some of these banks did things for free, but in terms of some of the exercise they were clearly doing it very cheaply. I have been around sufficiently long to realise that you do not get anything for nothing in this world and they probably were doing it as a bit of loss leading in the hope that they would get more business later. I do not think in the case of the banks we were dealing with that they suddenly become charitable institutions.

I think your broader point about underwriting is a really good one. Inevitably, when you are selling something into the market for the first time, the risks are usually greater because the journey of price discovery is inevitably greater. Looking back over my career at the Treasury, I can remember I think only two share sales that got into serious difficulty. One, and I think the Chairman was still at the Treasury at the time, was BP, where we were saved by the Kuwaiti Investment Office, if I remember rightly, pretty much.

Chair: Saved by high quality underwriting.

Sir Nicholas Macpherson: Indeed.

Mark Garnier: This was 30 years ago.

Sir Nicholas Macpherson: The other one I think was British Energy in the mid-1990s, which I think went off at a loss to the issue price. All of which is a long way of saying that the underwriters have done rather well, I suspect, over the years. What I will commit to you is that I will go back to the Treasury and have a further look at what we can do in this area. There are interesting issues. Obviously, the state needs money and you want to be able to plan money, but if any organisation can take a bit of risk at the margin it is the state because it has very deep pockets. It is striking that we do not generally insure. I do not think we insure the Treasury building because the Government have a policy of not insuring because it is cheaper not to line the pockets of the insurance companies. There could be strategic policy choices in this area where the Government choose to bear more risk and the City people do not line their pockets. I have a very open mind.

Mark Garnier: Very interesting, thank you very much.

Q31 Steve Baker: I would like to turn to the UK Guarantee Scheme. I have to say you have made me smile by saying, if I were to slightly interpret what you have just said, that it is cheaper to tax people than to buy insurance, but perhaps we could return to that as we go through. Can I put to you that since the beginning of March 2014 only two guarantees have been issued under the UK Guarantee Scheme with 40 projects declared as pre-qualified? Could you tell us why so few guarantees have been issued to date and is this less than expected?

Sir Nicholas Macpherson: I think there have been three, actually, rather than two. I think you may have forgotten about the Speyside biomass plant that was announced on 18 August. My main point on this is that there are inevitably long lead times with these transactions. A lot of due diligence has to take place because potentially quite big risks are at stake. What I can confidently assert is that there is quite a good pipeline of projects so I would expect more announcements in the near future.

Q32 Steve Baker: I understand that there is about £33 billion worth of projects declared as pre-qualified. I bear in mind your point about the project announced in August, but I think we are at about £83 million, thereabouts. At the moment, we are in tens, perhaps £100 million of risk, liable to rise to about £33 billion of risk. What assurances can you provide that the current process for qualifying projects exposes taxpayers to the minimum amount of risk?

Sir Nicholas Macpherson: This is the big challenge with guarantees because they are nice things to announce but they could have a very nasty sting in their tail 10 to 15 years down the track. That is uppermost in our minds especially when it comes to dealing with things like nuclear power stations. We rely very much on Infrastructure UK, which is part of the Treasury, which has a lot of corporate finance expertise in it. It is run by a very experienced investment banker, Geoffrey Spence. We also have a separate risk committee that assesses and indeed gives a credit rating to each guarantee. Kirstin is the Finance Director. Do you chair the committee?

Kirstin Baker: I sit on it and Geoffrey chairs it.

Sir Nicholas Macpherson: You sit on the committee. Do you want to comment on some of the process?

Kirstin Baker: Yes. There is also a risk officer within IUK who operates slightly separately from the main team, who will be doing the underwriting. She and her team will look at the deal and produce an independent assessment of the risk within it and a separate view on the underwriting and on the credit rating.

Q33 Steve Baker: One of the reasons I am attracted to free market capitalism is because investors and entrepreneurs bear their own risks, ideally. They stand to lose if they make a bad decision. The system that you have for risk taking and calculation of risks, allocating credit ratings, how does that compare to a free market system where people bear their own risks?

Sir Nicholas Macpherson: My starting point is that I share your liking for the market. It does help allocate resources well, but one of the reasons why we have a Government in the first place is that from time to time there are market failures that can justify Government intervention. That is justified with all inventions by all Governments I have worked for. It is perfectly legitimate, but then the interesting issue is: where do you draw the line? The issue here was that because of the financial crisis a couple of years ago it was very difficult indeed for long-term infrastructure projects to get decent financing. The intervention of the state has facilitated progress. It may well be that in the end we do not provide quite as many guarantees as we originally expected because of this pump-priming intervention beginning to free up the market. That has certainly been my experience with other interventions like the FLS and Help to Buy. At the moment, in a sense what defines whether a project gets through the gateway is that obviously there needs to be a need for a state guarantee but also the project needs to be ready to go. There are a whole lot of other criteria that I could take you through, but it is a difficult issue.

Q34 Steve Baker: I cannot help observing that usually when I hear market failure given as a reason there is either no market or there is a market in which there has already been heavy intervention, but perhaps we will return to that another day.

You mentioned these gateway criterion questions and I notice that projects must be financially credible but dependent on a guarantee to start. That put me in mind of a book by Professor David Myddelton, "They Meant Well", in which he surveys the history of Government projects during the 20th century. He suggests two gateway questions that are rather obvious: why will a private enterprise company not undertake this project and, if it will, let it—and I would say as a corollary without guarantees. The second question is: why does Government, in contrast, think the project worthwhile? The question to you is: are these kinds of questions being asked of each of these projects? Why is it that this project needs a Government guarantee to go ahead and why can it not go ahead with private sector guarantees?

Sir Nicholas Macpherson: I think those are excellent questions and ones I would expect every Treasury official to ask. Rarely a day goes by without somebody turning up at the Treasury, often with a degree of political backing, demanding just a little bit of state support and if only we will provide it then we will be able to keep all these jobs available.

I start from a high degree of scepticism. On the whole, if something is worth doing, the market should deliver it. I am very sceptical about civil servants, or indeed Ministers, somehow having a better understanding of what is economically and financially viable. That is a view that has developed over time. When I joined the Treasury in the 1980s I would have been instinctively more interventionist, but I am afraid experience has put me off it.

My job is to explain this scheme. I think there are genuine problems at the interface between the public and private sector. There are certain parts of infrastructure that you cannot necessarily price and there are particular problems at the current time around the energy sector, some of which are self-inflicted. Successive Governments have perhaps been less than totally clear about what their energy strategy is, what the pricing strategy is and so on, which makes it genuinely difficult for private sector companies to invest. We do have a potential problem. I do not want to be alarmist, but it is important that we do have some energy in the next decade. That requires some people to take some decisions and begin to put the odd spade in the ground.

My view is that there is a role for this scheme and it is taking its course. The challenge for the Treasury is that you have to keep quite a close eye on things that do not directly go on to its balance sheet, because people always like things that are not subject to conventional controls. The risk always is you go too far. Equally, politicians would argue that the dead hand of the Treasury stops lots of really sensible things happening, so clearly there is a balance to be struck.

Q35 Steve Baker: Is HS2 going too far?

Sir Nicholas Macpherson: I have learnt to keep quiet about HS2. It is Government policy and it is not something that I should get into, other than that I am confident it can be financed and delivered.

Chair: Like a real enthusiast for this project, if I may say so, Sir Nicholas.

Sir Nicholas Macpherson: I am a very enthusiastic person, Mr Tyrie, as you know.

Q36 Steve Baker: If I may, Mr Tyrie, just one more question because I know other colleagues want to get in. Could I ask you to explain a little bit more about the commercial expertise that is available? You mentioned Infrastructure UK and the people who are available in there. Are you satisfied that they are the kind of people who are imbued with a sense of profit and loss, that they understand commercial drivers, and that they are going to make sure that all of their expertise is brought to bear to bring a profit out of these infrastructure guarantees?

Sir Nicholas Macpherson: Yes. I think this is a high-class operation with some high-class people in it. I would not just mention IUK. It is really important that the Treasury itself has the necessary commercial and corporate finance skills to engage sensibly on transactions, just as it needs to on privatisation. The challenge for the organisation is to retain enough people with the necessary skills. You were talking about people who really understand profit and loss and so on. The risk is that people of that nature tend to be rather more responsive to market signals themselves and understand their own value. The challenge for our organisation, which is the most market facing of government departments, is how you retain people without throwing pay policy completely out of the window. If I had to articulate what the biggest internal management challenge is, that is it. How do you keep people in the Treasury when they know they could earn a lot more outside it? I am not defeatist. We do manage to retain really good people and some of it is about developing people's careers in a rather more active way and accepting that people may go out of the department in their late 20s, early 30s. The critical thing is to keep in touch with them, so maybe after they have made a lot of money they might come back. We have had some success in that.

Q37 Chair: You made a couple of very interesting remarks there, or you have made many, but you said successive Governments, and I am quoting, "have been less than totally clear about what their energy strategy is," which makes it difficult to invest. Could that be decoded slightly further? Are you not really describing a shambles?

Sir Nicholas Macpherson: No, private sector investors want certainty. Energy is one of the most politically contested areas there is and that is absolutely right—it should be. It is something that a lot of people pay, it is quite expensive and prices move around because of international markets. Political parties have interesting ideas on the subject, but I suppose all I am saying is that the more ideas there are knocking around, the more uncertain the political environment is. We are coming to terms with coalition Governments, as you know. All Governments, as you know, are coalitions ultimately, but this is a particularly well developed coalition. From time to time, you get slightly different signals emerging from different parts of the Government. I am just an official; I follow orders; I do what I am told. I try to make the system work, and I have long ceased expecting the next election is going to give me the clarity I need to do the job, because you never quite get it, but I live in hope.

Q38 Chair: You then came out with a couple of sentences. We do need some energy and so we will have to put the "odd spade in the ground". Do you want to decode that a bit?

Sir Nicholas Macpherson: You will all be aware that there are a number of power stations that are going to have to be retired in the coming period. They are coming to the end of their natural lives or, because of people's desire not to produce too much carbon, they have to be closed down. Something has to take their place. I suppose in principle we could just buy it all off France, but they do not seem to have enough nuclear energy so I think we have to produce it ourselves. The challenge is: how do you get more capacity in place? A lot of what we have been doing around the national infrastructure plan has been to try to identify what the critical building blocks are to ensure that happens. It is not just about building energy plants; it is about the communications between them, interconnectors, and so on. It is very important.

Q39 John Thurso: How content are you with the operation of the Treasury Board this year?

Sir Nicholas Macpherson: I am as content as I was last year, which is that it works well for the Treasury. It may not tick every box in the Cabinet Office's model for ministerially-chaired boards but it works well for the Treasury.

Q40 John Thurso: You had an aspiration, when we discussed it almost a year ago to the day, that two meetings a year would be improved on, but it has still had only two meetings a year. Can I put to you again the point I put last year: why not accept the reality, take the bits that work and formalise it?

Sir Nicholas Macpherson: I think we are moving in that direction. As you have spotted, we had two meetings again this year. I am realistic about this. Ministers are very busy. I have a very good understanding with the Chancellor of the Exchequer that he decides policy and goes out and sells it and explains it. My job is to run the department. We talk to each other regularly. We have some very good non-executive directors who can help, challenge and support along the way. What we are doing is settling down into an environment.

Very briefly, the executive team meets once a week on a Monday morning. That is like the top eight or so of the Treasury. We have the ministerially chaired board, which really is an opportunity twice a year for Ministers to say, "This is the thing that is really irritating me about the department. This is a thing that is worrying me" and have a bit more of a discussion that goes beyond the regular discussions I have every week with the Chancellor. In between, we have a very effective body that I think calls itself the board sub-committee, which is chaired by Sarah Hogg and which provides some quite serious challenge to the Executive and has been quite useful in forcing us to address issues that, left to our own devices, we might not have done.

Q41 John Thurso: That was the bit that was reviewed by Dr Long?

Sir Nicholas Macpherson: Yes.

John Thurso: From Dr Long's review, you are making some changes?

Sir Nicholas Macpherson: We are. Partly it is about recruiting new non-executives. There are issues around how we make the audit committee even more effective. I think we have settled down into a reasonably steady state. It is not hugely different from the regime under the last Government, under which we also had quite sensible non-executives. It works.

Q42 John Thurso: Your contentment is tempered by the need for improvement. Would that be a—

Sir Nicholas Macpherson: You always need to improve. You cannot afford to be complacent, but I find the governance useful to me and the feedback is reasonably positive, while recognising we can do better.

Q43 John Thurso: The point I am really gently suggesting to you is exactly the same one that we broadly agreed on last year, which is that the critical point for you as accounting officer and chief executive or chief manager, whatever, is the subcommittee and the audit committee and that that is the bit that is being strengthened. It is a bit irrelevant to make claims for a board that never is going to meet four times a year. It is better to leave it at twice a year and that is the—

Sir Nicholas Macpherson: I think that is where we are heading for.

Q44 John Thurso: Okay. The NAO came up—and you have touched on it—with one particular major concern. Well, it came up with a number but one particularly I saw, which was the high staff turnover rates. It had a bar chart showing that satisfaction this year was up on the civil service benchmark and on last year in every area except pay and conditions, where it was well down on both. This has to be one of the biggest threats to your capability to deliver. What are you doing about it?

Sir Nicholas Macpherson: We are operating on two fronts. One is that the more you can make the Treasury an attractive place to work, the more likely you are going to be to retain people. That is particularly relevant in terms of being able to offer a flexible job offer. Often we will retain high quality women and men who may have child-caring responsibilities who find life as, say, a City lawyer or a City corporate financier pretty difficult. That is one set of issues.

The other set of issues, which you have identified, is the pay issue. Being Treasury at a time of pay restraint, it is simply not an option to give across the board pay increases, but it is reasonable to identify targeted interventions that improve remuneration in areas where we are at most risk. We have taken action in the last year on two fronts. One is to target the graduate trainee who has been there for two years, has begun to become very effective indeed, where under our old pay system they did not get paid any more really than a graduate recruit who is still learning. We are paying more people at that point, say when they are 25 or 26.

The other area where we are most at risk is at the grade above that, where often quite experienced economists who cannot get promoted up the system because it is quite a narrow pyramid tend to go off, say, to work in the City where they can command substantially bigger salaries. We have created a new grade. I will not bore you with the names but—

Q45 John Thurso: Is that E2?

Sir Nicholas Macpherson: E2, that is the one. We are never going to be able to compete with the City of London, which is the place where people tend to go, but we do not have to tie both our hands behind our back. Just demonstrating that there is a bit more money available in those critical areas can make quite a big difference because by the time you get to Kirstin's level, or especially my level, it is too late. You are not going to go. Well, Kirstin may go but I am not going, at least not yet. No doubt at some point I will be pensioned off. It is the people in their late 20s.

Again, the critical thing: I am quite happy to have a reasonable level of turnover, rather like any professional service firm. You want to try to recruit really good people. You then want quite a lot of them to leave. The critical thing is to retain the really good people, and we need to work harder on that. One of my worries is problems with the rest of the public sector. In the last year, we have lost 12 people to the Bank of England. It is slightly frustrating that banking is a nationalised industry, the FCA is the classic quango, but these guys just pay a lot more than us. It is frustrating for us to be some sort of feeder second division Belgian football team that provides really good people for the premier league teams like Chelsea and Manchester United.

John Thurso: You are on rare form this morning, Sir Nicholas.

Sir Nicholas Macpherson: We need to work on that. I have discussed it with the Governor. Mark Carney, perhaps because he also worked in a finance ministry, is very helpful on these points. To give a good example, we have just recruited someone really good from the Bank of England called Katharine Braddick, who has come in as a director to deal with financial services in Europe. We would not have been able to afford her salary, but I came to an agreement with Mark Carney that the bank would make up the difference in her salary while she was at the Treasury. I think we need to do more of that sort of thing.

Q46 John Thurso: It is more in the nature of a secondment, is it?

Sir Nicholas Macpherson: Yes.

Q47 John Thurso: Clearly, that is a very interesting answer to the quandary and I think it is one not for today but we would like to come back to and know more about. It is quite clear that if you cannot solve or if you do not have an answer to retaining talent, even if it goes and comes or whatever, the problem that the Treasury may face is when another big issue hits you do not have the strength and depth of skill.

Sir Nicholas Macpherson: I am very aware of that and we are at risk. If the upturn really gets going, the Treasury will be at much more risk than it is at the moment. We need to be ready for that. I have always been more of a hair-shirtist on this than most of my colleagues, but I am finally coming round to the view that maybe the Treasury just needs—I think in Ireland and in Australia the finance ministry pays its staff more than everybody else. The Treasury—and it is probably my fault—has got itself into a situation where we pay less well than other departments. We have much higher turnover and I think we have to do something about it.

Q48 Chair: The pay less well point, if that could be illustrated in a note just on that point—

Sir Nicholas Macpherson: Yes, I would be happy to send you a note comparing—

Chair: —it would be of some use, particularly over time showing the trend line going back as many years as possible because I do not think that was the case 20 years ago. It is something that has developed.

Sir Nicholas Macpherson: No, one of the mistakes—well, it was not a mistake, it seemed like a very good idea at the time and it was. We decided in the 1990s to devolve pay to departments below the senior civil service. Other departments have been very adept at working the system and departments that have lots of grades, because no one ever gets a pay increase these days; the only way to get a rise is to get promoted. The Treasury delayered in the 1990s, whereas HMRC, for example, has tons of grades. We get a lot of staff in their late 20s who will just go and get a job at HMRC because they can earn £10,000 more a year.

Q49 Chair: What you are saying is that the reform of the delayering in the Treasury that took place, led I think by Jeremy Heywood, now Cabinet Secretary, had this inadvertent consequence.

Sir Nicholas Macpherson: Delayering is a good idea. You really do not—

Chair: Furthermore, the most valuable output we were told that we would get from that delayering in the Treasury was that it would act as a beacon for other departments. That was a phrase used publicly frequently. But you are telling us it did not act as a beacon; indeed, the others have layered up?

Sir Nicholas Macpherson: Well, I do not want to badmouth other departments and I am sure other ones delayered as well, but it is a bit like progression pay. We are now buying out departments who still have annual increments. Treasury abolished annual increments 20 years ago. There are a whole lot of things that cumulatively have quite a big effect. We need to learn from that. It does not mean we should not continue to be tough. There are some departments that have turnover—

Q50 Chair: It might be helpful in this note that you send us if you also give us what you think are the primary drivers or causes, because you have started going into that.

Sir Nicholas Macpherson: Okay, I would be very happy to send you a note.

Chair: Rather than extend the discussion now.

Sir Nicholas Macpherson: I look forward to your support. I look forward to this Committee's support on this issue in the future.

Chair: Then we might have you back to discuss it. Well, we will see what you come up with, Sir Nicholas, yes.

Q51 Stewart Hosie: Sir Nicholas, you will remember a couple of years ago the public outcry when it was discovered large numbers of people employed in the public sector were being paid off payroll in a way that the Treasury themselves described as creating the conditions where tax avoidance could be taking place. You will remember this. Why do the Treasury still have off-payroll engagements?

Sir Nicholas Macpherson: All departments will have some off-payroll engagements. The critical thing is that you get proper assurances from those you are engaging that they are paying tax on their income in the right way. We get that assurance as a matter of course. Generally, our objective is not to employ people in these ways but occasionally you have specific projects. One example I am conscious of is that we brought someone in to provide very high quality legal advice for infrastructure schemes. Occasionally, the Debt Management Office has quite big issues with IT. You can't employ people from the market for those relatively short tours of duty, so you employ people in this way. But, as I say, as a matter of course we get assurance on tax, and let me assure you that we have that assurance.

Q52 Stewart Hosie: So you are happy to do that, and the doubling of the number of payroll engagements last year, compared to the year before, is absolutely okay because assurances have all been given, and you are content with that?

Sir Nicholas Macpherson: The doubling reflected specific factors, did it not?

Kirstin Baker: In the particular sense of being IT roles, and we are in the midst of changes to Treasury's IT system, and moving to a new supplier, so some of these roles have been contractors working on that. It is in the nature of this that you will have peaks and troughs if you have projects where you need to bring in particular outside expertise.

Q53 Stewart Hosie: I appreciate that. Let me ask for absolute clarity: the bringing in of those contract staff to do that particular job does not reflect an inability to recruit on normal terms?

Sir Nicholas Macpherson: No. This is about specifically short-term bits of work. Occasionally, the short-term bits of work go on longer than you expect, but the Treasury is not trying to solve its retention problems by going into lots of consultancy contracts.

Q54 Stewart Hosie: Is there any issue at all with those short-term contracts or the off-payroll engagements being ex-Treasury staff leaving then coming back? Would you have any degree of that at all?

Sir Nicholas Macpherson: No. This is invariably about buying in expertise the Treasury simply cannot produce in-house.

Q55 Stewart Hosie: That is helpful. The Public Accounts Committee, though, reported that a greater transparency of off-payroll arrangements is still needed and they recommended that the Treasury continue to strengthen its guidance. Do you think the current rules governing off-payroll appointments in central government as a whole are adequate? Do they require to be further strengthened and, if they do, what is it that the Treasury is doing in terms of guidance?

Sir Nicholas Macpherson: I think the most important issue on this front is transparency. I know we have a page or so on this issue in our accounts, and having to produce it and sign it off concentrates minds. The Treasury's monitoring has become far more developed over the last couple of years. I can give you examples of a time where we have uncovered somebody who has been employed off payroll into a senior position without the agreement of the Treasury. The result of that is that the Chief Secretary has fined the department for so doing. That now happens, I would not say regularly but sufficiently often for this to concentrate departments' minds.

I do not think we are in a bad place on this. If the NAO thinks we can do more I am very happy to consider it, but there has been a step change. I think it was this Committee that originally identified this as a problem, and we have improved.

Q56 Stewart Hosie: That is helpful. Just one final thing. Other colleagues may ask you about the Treasury's attitude or preparations in relation to the Scottish independence referendum. I am not going to ask those questions. I just wanted to check, or have you confirmed to the Committee, that you are in purdah in relation to new information in relation to the independence referendum and that anything you are able to say today will effectively be prepublished or already given information from the Treasury?

Sir Nicholas Macpherson: I can give you that assurance, just as I am sure the Scottish Government are pursuing a similar approach.

Q57 Mr McFadden: I would like to ask you a bit more about this, Sir Nicholas. This referendum is just a couple of weeks away, and we read in the press this morning that the Government have made no contingency plans in the event of a yes vote. Is that true?

Sir Nicholas Macpherson: It is true.

Q58 Mr McFadden: We could be facing the break-up of the UK in a couple of weeks, or at least the decision taken to break up the UK in a couple of weeks. Your department, which I imagine is at the centre of such thinking, were it to take place, has not made any plans at all in the event of a yes vote?

Sir Nicholas Macpherson: I just have to say there are plans and plans. We may have made contingency plans about contingency plans, by which I mean if Scotland were to vote for independence, in the early hours of the morning—assuming we know by the early hours of the morning—we will have a team in place that will be tasked with dealing with this issue. The Governor of the Bank of England is on record as having told this Committee that he has some contingency plans and he was not prepared to share them with you.

I am confident that we will be ready to go. In a sense, there are two issues. There is not a huge amount of point speculating about this, but there will inevitably be short-term financial issues, which may or may not have market implications. Longer term, this will be a long and tortuous negotiation about assets and liabilities, but that is all for the future. At this stage we have no plans.

Q59 Mr McFadden: Can I try to ask you a bit more about this? The issues that your department is concerned with—currency and debt for example—have been at the centre of this campaign. Leaving aside whatever the Scottish Government may say in the event of a yes vote about these issues, are there any plans for the UK Government to say anything, for example, about debt and fulfilment of debt obligations in the event of a yes vote? Is that something you would do with each other?

Sir Nicholas Macpherson: Consistent with Mr Hosie's requirement that I don't say anything new, I think the Government's position on currency and debt is very clear. All the major parties at Westminster have said broadly the same thing on the currency. We know, as a matter of course, that we are not going to be entering into a currency union, for example. It is totally open to the Scottish Government under those circumstances, if it became independent, to pursue a number of different courses, and that has been covered at length by others. On the debt, there are well developed conventions about what happens to debt. The break-up of Czechoslovakia is one of the most recent examples of a breakup in a reasonably well developed economy. You would expect Scotland to take on its fair share, and I think the Scottish Government have indicated they would.

Q60 Mr McFadden: The First Minister has said he won't if the Chancellor, supported by my own party and others, persists in refusing to agree a currency union. In the event of that, what will the UK Government do to reassure markets that debt obligations will be met?

Sir Nicholas Macpherson: Earlier this year, the Government made clear that existing debt was issued by the United Kingdom, and the United Kingdom stands behind that debt. This is all hypothetical. It would be for the Scottish Government to decide what position it would take. As I have certainly told another Committee, at a personal level I don't think saying you are not going to take on your fair share of the debt is a particularly credible threat, not least because on day one of independence Scotland is going to have to be borrowing in the market and people will want to regard the Scottish sovereign as a good bet to lend to. But we will see what happens.

Mr McFadden: We will. One more question, on a different subject you may be relieved to hear. Going back to what Mark Garnier asked you a little while ago about the whole RBS thinking: what is the Treasury's thinking on this idea of just giving the RBS shares away and not seeking to sell them, either through an institutional sale or a sort of Telsim style privatisation?

Sir Nicholas Macpherson: It is an option. It may be that, coming from the Treasury and knowing the price of everything and the value of nothing, I am still slightly prejudiced in the direction of trying to get some money back for the taxpayer. It depends on how you do it and how the after-market works, but it is one way of doing it. It is clearly not one that the Government chose to do with Lloyds. I think, for the sake of consistency, it would be slightly odd to have a different approach to RBS from Lloyds but that will be a matter for the Government at the time.

Q61 Chair: For a man in purdah, you did make the odd remark about Scotland and, prior to going into purdah, you issued a letter, or at least a letter was issued, that you sent to George Osborne, strongly advising against a currency union. I just want to discuss the quasi-constitutional propriety of that letter. Was it commissioned?

Sir Nicholas Macpherson: No, it was not. It was not commissioned. I wrote it of my own free will. Its genesis lay in discussions with the Chancellor about how we could make the British Government's position absolutely crystal clear. There were people, primarily north of the border, who were basically casting aspersions on the British Government's position. It was my decision to publish it. It was under very exceptional circumstances but I felt, given that those circumstances were so exceptional, it was important that people understood the British Government's position before the referendum rather than afterwards.

Q62 Chair: Did you consult the head of the civil service or the Cabinet Secretary?

Sir Nicholas Macpherson: No, I did not.

Q63 Chair: It is the exceptional circumstances point that I am on. You do not feel that a precedent might have been set for letters of this type to start appearing from permanent secretaries in other departments?

Sir Nicholas Macpherson: I would discourage it, on the whole. I think advice is best given in private, but there will be occasions when the integrity of the British state and the integrity of the British financial system are at stake where, in my view, there will be a case for officials to step up to the plate. I would not expect that to happen at all often. It is the only time it has happened while I have been the Treasury Permanent Secretary, but these things are of absolute critical importance to the British taxpayer, to the British citizen, and I think creating clarity about the Treasury's position was of critical importance.

Chair: As it happens, I agree with the analysis in the letter and had already made similar points on the floor of the House, but that is by the bye. I wanted to check this quasi-constitutional point.

Q64 Jesse Norman: Thank you for the reassurance about your personal position, Chairman, on that issue. Can I talk a little bit briefly with you, Sir Nicholas, about value for money in PF2? You have made very evident your zeal for value for money, in responses to other questions today. In December 2012 the Government withdrew the quantitative element of its value for money assessment guidance. It was supposed to be published in spring 2013. We are now in September 2014. When might we expect this to be published so that we can have the consultation that was promised last year?

Sir Nicholas Macpherson: I do not know the answer to that question, Mr Norman, and I would be happy to get back to you. I know that we have recently responded to a report by this Committee on PFI issues, but I will get back to you on it.

Q65 Jesse Norman: I would be grateful if you would. It would be helpful if your response could include a brief written summary of the kind of progress that you are making, as well as when you expect it to come out. Obviously, it is impossible for public projects to be appropriately assessed if there is not a numerical or quantitative analysis attached to them. I would think your job becomes impossible if that is the case because you can't sit in judgment on things if they are just framed in words rather than in numbers, and the Treasury runs on numbers. At least it did when I last checked. I am sure you agree with that.

Sir Nicholas Macpherson: We do like numbers.

Q66 Jesse Norman: The NAO, as you may recall, was very critical of the previous value for money assessment framework. Can we take it that you are working with the NAO as part of your development of a new framework, or will you be including that in your written note?

Sir Nicholas Macpherson: We do try to work with the NAO. It is always far better to keep them onside, and when I come back to you on the other point I can report on progress on that.

Q67 Jesse Norman: I understand. Okay, thanks. Talking about private finance, PF2 and PFI, do you think there is scope for the Treasury to drive more savings from current PFI contracts already in place, of which, as you know, there is a very substantial overhang? Let's take it as read the work that has been done on Romford and things like that. I mean as you look at it now, in the search for more savings with austerity still under way.

Sir Nicholas Macpherson: I think we have made quite a lot of progress on this in recent years. We have produced savings on a number of contracts, including PFI, but I do not think that is the end of the matter. We are going to have to review further the baseline of public spending if we are going to live within the spending totals we have set out, so we are going to have to come back to this.

Q68 Jesse Norman: If I can just share a personal moment. One of my proudest moments as an MP has been to persuade my local hospital in Hereford to bring in a specialist contractor to evaluate whether or not the things that were said that were going to be done with the PFI contract were in fact done. After they had discovered that this was not true of the fire safety for the entire hospital, the ventilation in key areas of the hospital, water, the mortuary and various other things, it turns out there were millions and millions of pounds to be saved on a miniscule project.

I think there is no one who knows more about the subject than I do in Parliament and I can tell you that there are several billion pounds of additional savings to be made from pressing departments harder on their existing PFI contracts. I would strongly encourage you, if I might, to push that process. Start it if it is not started; press it harder if it is being pressed. You could spend some very happy time sending some of your colleagues to the Department of Health, where there are billions to be made in Health alone in this area, if I may say so.

Chair: I did not spot a question there. We had the benefit of personal experience, which is always helpful. I think we have probably taken it on board—

Sir Nicholas Macpherson: What I might do is encourage someone from our health team to go and talk to the people who got the savings out of your hospital. I do recognise there is scope—

Q69 Jesse Norman: But you accept the point in general, do you, Sir Nicholas?

Sir Nicholas Macpherson: I accept the point that, historically, the Government have not been good at contracting. It sought to renegotiate a number of things. My guess is there is a lot more we can do, and we are going to have to.

Jesse Norman: Thank you.

Q70 Chair: That is very helpful. Thank you. I want to raise one other point. Under the Public Records Act, those responsible for keeping them have to determine which are worth keeping and which can now be destroyed. Isn't modern technology making it much easier to store this stuff? The primary cost in the old days was space and this has now been rendered of very little importance by scanning.

Sir Nicholas Macpherson: Yes and no. Yes, you are absolutely right, electronic filing gives you more capacity. The no is the complication that every few years you get massive further changes in technology and you then have to convert all the files you have prepared up until now, and very quickly. I think we started electronic filing in the mid-1990s. If you try to access it through a conventional computer, it will come up as gobbledygook. You have to manage that. Also, electronic filing has discouraged the nice sequential files you had in the old days, where it started on a certain date and you could see how the decision was taken.

My point is that there are opportunities here, but if you get it wrong you could lose quite a lot of things. There are also issues around what hard copies you retain for the nation, which is particularly important when it comes to ministerial offices and the papers that go through those offices.

Q71 Chair: I was going to come on to that. In your case, it would be primarily the Chancellor. Are papers of the previous Chancellors' private offices generally kept or destroyed?

Sir Nicholas Macpherson: They are kept within the Treasury until the point comes for them to be passed to the national record office, where they go to a repository that belongs to the National Archive and then what happens next is in the hands of the National Archive.

Q72 Chair: You can't give me an assurance that the right documents are being kept, because it is down to them and not to you?

Sir Nicholas Macpherson: Mr Tyrie, it has always been the responsibility of the National Archive, ultimately, which papers to keep.

Chair: Let us just say you have never been able to give me the assurance.

Sir Nicholas Macpherson: I share your concern. At the risk of bringing private correspondence into public, I think a number of previous Chancellors are also very concerned about what is happening to their archive. I am very keen to retain for the nation the original copies of papers that they have written on and commented on. If, for some reason, the National Archive does not regard them as sufficiently important, I am very keen that these papers should find a home in an institution of the former Chancellors' choice. So, I am on the case.

Q73 Chair: These are extremely important questions on the destruction of what are public records, and I would be very grateful if you could send us a note on what progress you are going to make to ensure that important papers do not get destroyed.

Sir Nicholas Macpherson: I will do.

Chair: We have seen only recently, with this financial crisis, how collective memory and papers from our previous crises, even a very long time ago, can still be of value in an institution like the Treasury.

Sir Nicholas Macpherson: Yes. One of the lessons of the financial crisis is that knowledge management is more important than ever.

Chair: That is an extremely helpful remark and a good one, perhaps, to end on. Thank you very much for giving evidence to us today. You are going to come back to us on a number of points. It is possible that we will want to see you again to discuss those. We will see what comes in writing. Thank you very much indeed.