



HM Treasury

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Tom Scholar
Permanent Secretary


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Meg Hillier MP
Chair, Public Accounts Committee
By email only

7 December 2017

Dear Ms Hillier,

PUBLIC ACCOUNTS COMMITTEE HEARING, 29 NOVEMBER 2017

Thank you for the opportunity to appear before the Committee to discuss Government borrowing and Whole of Government Accounts. During the hearing, there were three issues on which I committed to write to you. These were: online VAT fraud; the deadline for internal management accounts; and interest-only mortgages.

Online VAT fraud

According to the latest central estimates of the independent Office for Budget Responsibility (OBR), by 2023, the Autumn Budget 2017 package will raise £165 million, and the Spring Budget 2016 package will raise £775 million. The OBR continues to attach a very high uncertainty rating to the revenue raising estimates for both packages. I understand that HMRC are separately responding to the Committee on their estimate of the impact of online VAT fraud as part of a Treasury Minute on 7 December. The VAT gap was 9.8% in 2015-16, its lowest level since 2010-11, and the preliminary estimate at 9.3% for 2016-17 shows a continuation of the downward trend.

Internal Management Accounts

Government Departments produce management accounts on a monthly basis and publish their audited annual report and accounts by end of June. HM

Treasury collects financial data from departments on a monthly basis, consisting of both forecast and actual outturn data for the twelve months of the current financial year. The deadline for this is working day eleven and it is then processed by the Treasury's Fiscal Statistics and Policy team. HMT has set up an internal Balance Sheet Group (BSG) which meets quarterly to discuss public sector assets and liabilities and to monitor balance sheet risks. The BSG updates the Fiscal Risks Group on a quarterly basis which feeds into HM Treasury's Executive Management Board's overview of risk in order to embed balance sheet perspectives into decision making across the department.

Interest-only mortgages

In May 2013 the Financial Conduct Authority (FCA) published a review into the interest-only mortgage market. This review built a more accurate picture of interest-only mortgages, and how many people may or may not be in a position to repay their mortgage at the end of the term. It showed that most people (9 out of 10) have a strategy in place and understand the nature of the product. Where gaps were identified, particularly around the sufficiency of the repayment strategy, the FCA has provided lenders with information and guidance on how to address this with their customers. In such circumstances a further option that is open to lenders is to extend the term of the mortgage to give the customer more time to pay, although this will depend on individual circumstances. Following this review, anyone with an interest-only mortgage maturing before the end of 2020 should expect to be contacted by their lender about their repayment plan.

Mortgage arrears and repossession are at historically low levels. However, the FCA continues to monitor lenders' treatment of borrowers with interest only mortgages as part of their routine operations. Lenders have a responsibility to work with consumers to minimise the risk of non-payment of the mortgage at maturity.

It is also worth noting that the FCA is currently consulting on Retirement Interest Only Mortgages. These are interest-only loans for older people that are repaid at a life event or the sale of the property. These require people to make annual interest payments rather than the interest compounding and being paid when the house is sold, as happens under a traditional equity release mortgage. Crucially, where affordable, this is a possible financial solution for many borrowers, including those approaching the maturity of their existing interest-only mortgages.

Finally, I would like to highlight that the Office for Budget Responsibility (OBR) produces forecasts of Housing Benefit and Universal Credit, which take into account trends in home ownership and household income levels.

I am copying this letter to the Comptroller and Auditor General, the Treasury Officer of Accounts, Ian Ackerley, James Bowler, Ian Bulmer and Sir Robert Stheeman.

Yours


Tom Scholar

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