

# Cost Saving Proposals Across Government

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On 14 July 2010 the Pensions Minister asked at a meeting with the Pensions Action Group (PAG) for ideas which would raise money to help pay for their claim for compensation in accordance with the Parliamentary and Health Service Ombudsman's recommendations in her 2006 report "Trusting in the pensions promise". This paper is one in a series in response to that request.

## Savings within the FAS

At present, there is no *de minimus* within the FAS. Given that the majority of those receiving payments have small entitlements, there must be a considerable administrative cost involved in tracing and keeping in contact with these people, for relatively little benefit. We would not suggest that they should lose their entitlement as, for some, even small amounts will be much valued. However we would suggest that, below a certain threshold, the FAS should only make payments if the recipient explicitly asks for them. This would both lighten the administrative burden and reduce the costs of the scheme, as many people would not bother to apply.

The administrative burden could be reduced further if, again below a certain minimum, recipients were able to apply to take their entitlement as an actuarially calculated lump sum. This would involve bringing payments forward, so the minimum would need to be calculated accordingly to ensure that the savings made were real.

When improvements are made to the FAS, it could be stipulated that they should only be available to those who apply for them. This would have the benefit not only of dramatically reducing uptake, but also of concentrating the extra cash on those who need it most. This would be particularly effective in the case of back payments, where applications could be accepted only within a defined window (say 3 months) after the enactment of the regulations.

Even the annual increases arising from indexation could be made dependent on the recipient renewing his or her application.

## Tax Evasion

Tax evasion and fraud cost the Government billions of pounds each year in lost revenue and it is the role of the Enforcement and Compliance section of HMRC to seek to minimise this. According to the Guardian (4/9/2010) "On average a senior tax inspector on £50,000 brings in about £1.5m, while lower-level inspectors on £25,000 bring in £300,000 each". Yet the HMRC is not being exempted from the draconian cuts which are being planned for this Autumn. Clearly, increased

investment in this area would be particularly cost-effective, but there are political reasons why this might not be possible.

We suggest therefore that the Enforcement and Compliance section should be authorised to recruit as many additional inspectors as it wishes, on a freelance basis, and that they be paid a proportion (say 1/25<sup>th</sup>) of the additional revenue that they generate. As they would be self-employed there would be no need to pay them a salary or provide ancillary benefits and therefore there would be no significant up-front costs. They would be highly motivated and potentially able to earn very substantial amounts, but this would be of no concern for the Exchequer because of the vastly greater sums that would be received as a result of their efforts.

Of course there would need to be a vetting process and individuals would have to be monitored to prevent abuses, but this is already in place for existing inspectors and would represent only a small additional overhead. In the first instance, HMRC could concentrate on luring back staff whom they have already trained but who left for more remunerative jobs elsewhere.

As a potentially lucrative venture, doubtless the major accountancy companies would want to be included and this should be encouraged, with the proviso that only those companies that are not involved in tax avoidance schemes would be eligible. This would have the dual benefit of increasing the reach of the section and reducing the number of avoidance schemes which are generated.

It is possible that existing inspectors might also want to be independent but this need not be a problem, as the additional expenditure would be small in relation to the overall gains. Equally, many may prefer to keep the security of a Government job and fringe benefits rather than risk the uncertainties of freelance work.

## **Tax Avoidance**

Given the cuts which are planned to Government services and benefits, it is time to take off the gloves and tackle the tax avoidance industry. This is sensible not only financially but also politically, as the perception that only the “little people” are suffering could be very damaging.

The major accountancy firms make large sums of money by thinking up ever more ingenious schemes for their clients to avoid tax and yet these same companies are also major beneficiaries of Government contracts. The Government already has a Disclosure of Tax Avoidance Schemes (DOTAS) system so it would be simple to exclude any company listed as a promoter of such a scheme from being in receipt of a Government contract.

Companies might react by separating out their tax evasion business into stand-alone companies. This would be all to the good, as it would remove the veneer of respectability which is attached to the practice through the participation of major players in the financial industry.

Those companies who are listed as promoters in DOTAS can easily be the target for additional taxation, to recoup some of the lost revenue. For instance, a fee of £1 million (or more) for registering a scheme would ensure that not all tax avoided by clients was lost to the Treasury.

Some avoidance schemes are legal but others, when tested in the courts, are found to be contrary to current laws and regulations. In this case, there should be a named individual at director or partner level in the sponsoring company who takes personal liability and who could be subject to penalties up to and including prison. There are clear precedents for this both in health and safety and in pharmaceutical registration where named individuals are responsible for ensuring that their organisations remain within the law. Fines would mostly be paid under director insurance policies so other punishments might be more appropriate – senior managers might be more careful if they knew that a misjudgement might land them with 300 hours of community service or an electronic tag.

On a name and shame basis, sponsors should be required to publish in a central register the identities of those companies or individuals who have taken advantage of their avoidance schemes (and by this we mean the final beneficiary, not a cover organisation). If people choose to avoid paying their fair share of tax, it is arguable that the public have a right to know who they are.

## **Indexation changes**

Since, we understand, the change from CPI to RPI is primarily for statistical accuracy and for harmonisation with the EU, the significant savings generated within the FAS can presumably be applied to improving the benefits in other ways.

## **Budget under-runs**

It is not uncommon for Government departments to say to suppliers “*Just give us a quote, we've got to spend the money even though we don't need the machine or our budget for next year will be cut.*” This is clearly unnecessary expenditure and is wasteful. We would therefore propose that:

1. Unused expenditure should be allowed to be carried forward for at least one year – the longer it is deferred the greater the saving for the Treasury, and the better the immediate cash flow.
2. Budget negotiations should start from a fresh sheet and ignore any carry-over from previous years so that there is no incentive to “spend to budget”..
3. If a department voluntarily foregoes a sum which has been carried forward then the management team should be eligible for a bonus in recognition of their skill in maximising efficiency. This would align their personal interests with that of the Treasury but would represent only a small proportion of the savings achieved.

There might be the danger that departments would be tempted to inflate their budget proposals in order to achieve phantom savings, but budgets are already heavily

scrutinised and it would be a brave manager who attempted to do this in the current climate of cuts.

## **Unclaimed Assets**

Dr Ros Altmann suggested back in 2004 that Government might take over dormant bank accounts as a way of financing improvements to the FAS. Gordon Brown at first rejected it as impossible but it is now accepted practice, although the money generated has been used for other purposes. There are other asset classes to which this principle could be applied.

**Unregistered land** - All land transactions since the 1990s have had to be notified to the Land Registry but there are tens of thousands of properties which have not changed hands in that time and hence are unregistered. Many of these may actually be abandoned.

The Government could pass legislation that any land which remained unregistered after a grace period would revert to the Crown and could be sold off. There would naturally need to be some safeguards. If anyone could show lawful ownership after the cut-off date they should be able to get their land back or, if it had been sold, the money plus interest. But the principle is really no different from that employed for the dormant accounts, with the added advantage of an end point where all land in the UK is registered, which is another Government objective.

**Uncollected winnings** - Winnings from betting shops, bookmakers, online casinos and the like currently revert to the operator. There is no reason why they should not be paid to the state.

**Unclaimed pensions** – It is not unreasonable that the money saved from unclaimed pensions in solvent schemes should be used to improve the payments made to those who have lost their pensions and are covered by the FAS. Unclaimed state pensions are presumably already accounted for in the overall costing of that benefit.

**Company shares where the owner is untraceable** – These dormant shares are at present just left on the companies' share register. If a census of shareholders was taken, the shares belonging to non-respondents could be allocated to the Government.

**Unclaimed endowment policies** – In spite of the many ventures which seek to reunite people with lost endowment policies, there must still be some for which the beneficiaries are untraceable.

**Safe deposit boxes** - The contents of dormant or abandoned safe deposit boxes at banks (i.e. ones that haven't been opened for many years or where the rental is no longer being paid and the owner is untraceable) could be sold and the proceeds passed to Government.

**Commercial storage units** – As for safe deposit boxes. In view of the likely lower value of such contents, and the costs of realising what value there is, it would

probably be necessary to split the proceeds with the operator and to apply a minimum value cut-off.

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