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House of Commons

Public Accounts Committee

The Nationalisation of Northern Rock

Thirty-first Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons to be printed 1 June 2009

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The Public Accounts Committee

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
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Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/pac. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Lorna Horton (Senior Committee Assistant), Pam Morris (Committee Assistant), Jane Lauder (Committee Assistant) and Alex Paterson (Media Officer).

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Summary

The run on deposits at Northern Rock in September 2007 and the company's subsequent search for a solution, culminating in public ownership in February 2008, was the first major test in recent times of the Treasury's capacity to deal with a bank in difficulty. By 2007 Northern Rock had grown to become the fifth largest mortgage lender in the UK. To finance its growth the company depended on raising funds from wholesale sources such as other banks, and selling its existing mortgage book to investors. In August 2007, credit concerns stemming from bad debts in the US mortgage market caused banks to curb their lending to each other and investors to stop buying mortgage-backed securities. Northern Rock began to experience problems raising funds and asked the Bank of England for emergency financial support.

When Northern Rock's customers became aware of the support, queues formed outside branches and, over a few days, £4.6 billion was withdrawn. The Treasury stabilised the situation by providing a series of guarantees to retail depositors and wholesale lenders. This action avoided the immediate risk of problems spreading to other banks. At its peak, the taxpayer underwrote up to £51 billion of the company's liabilities. Throughout the period of emergency support the company agreed, amongst other measures, to reduce mortgage lending, but continued to write loans of up to 125% of a property's value.

With the assistance in place, the Treasury's preferred option was to support the company while it searched for a private sector buyer. The Treasury considered it should avoid taking any actions that were properly a matter for the Northern Rock directors and, therefore, regarded the company as being in charge of the search for a buyer, even though increasingly large sums of public money were at risk. It gradually became clear that potential buyers for the company could not arrange private funding and, with market conditions continuing to deteriorate, there was no prospect of a sale on this basis. The Treasury decided that nationalising the company offered the best means of protecting the taxpayer.

The Treasury was stretched to deal with a crisis of this nature. The Treasury, the Bank of England and Financial Services Authority (the Tripartite Authorities) had undertaken an exercise in 2004 to test their response if a bank got into difficulty and had identified gaps in the statutory framework to protect depositors. Prior to 2007, the Treasury did not judge the work to address these gaps to be a priority.

Very few people within the Treasury had the relevant skills to deal with the crisis at Northern Rock and it made extensive use of external advisers. Although Goldman Sachs commenced work as the Treasury's financial adviser in September 2007, a fee structure was not agreed until January 2008. The agreement included a monthly retainer plus a success fee, but success was not defined.

Once the company was in public ownership, the Treasury approved a business plan for it in March 2008. This plan was based on optimistic assumptions about the outlook for house prices. The base case had assumed, for example, a 5% drop in house prices in 2008 and flat thereafter. The company had to substantially revise its forecasts in August 2008.

On the basis of a report by the Comptroller and Auditor General,[1] the Committee examined the Treasury on the protection of the taxpayer ahead of nationalisation, its capacity and readiness and on the oversight of Northern Rock after nationalisation.

1 C&AG's Report, *HM Treasury: The Nationalisation of Northern Rock,* HC (2008–09) 298

Conclusions and recommendations

1. **The Treasury's decision to nationalise Northern Rock in February 2008 was based on a comprehensive assessment of the options available to it.** This analysis suggested that public ownership represented the best alternative in terms of value for money.

2. **The Treasury had been aware of shortcomings in the arrangements for dealing with a bank in difficulty since 2004, but the pace with which it acted to remedy these shortcomings was leisurely.** The Treasury, working with the Bank of England and the Financial Services Authority, should ensure that weaknesses identified as a result of scenario testing are evaluated promptly, any action needed is clearly specified and that follow-up work is taken forward with an urgency reflecting the seriousness of the shortcomings identified.

3. **Despite the enormous problems facing Northern Rock during the period of emergency support, the Treasury saw fit to allow the company to write around £750 million of high risk loans of up to 125% of the value of the property.** Whilst the company agreed to reduce its overall lending in return for this support, the Treasury failed to protect the taxpayer from the riskiest loans. This type of loan is now a significant source of arrears and write-offs. When the Treasury steps in to provide support to a company it should evaluate systematically the risks to the taxpayer, decide what information it will need to monitor these risks and use its influence as owner, or major creditor, to manage these risks robustly.

4. **At the time it nationalised Northern Rock, the Treasury did not know enough about what it was taking on.** In nationalising Northern Rock, the Treasury was taking on enormous risks on behalf of the taxpayer. Yet the Treasury did not commission its own due diligence on the quality of the company's loan book, preferring instead to place reliance on the work undertaken by advisors to the Bank and the Financial Services Authority. That work had been done for different purposes and the Treasury undertook no formal assessment to ascertain whether it could or should place reliance on it.

5. **The company's initial business plan approved by the Treasury on nationalisation was over-optimistic on future changes in house prices, even compared to forecasts publicly available at the time.** The company's reported loss for the six months to end of June 2008 of £585 million was £314 million greater than the base case, and worse than the recession case forecast in the plan approved by the Treasury just three months earlier. As part of the programme of scenario testing, the Treasury should challenge vigorously the information it receives on the quality of a business in difficulty. It should identify the type of information likely to be needed and the timescales within which such information can be collected.

6. **Goldman Sachs refused the National Audit Office access to the financial modelling underpinning its analyses for the Treasury, even though this work had been paid for by the taxpayer.** It is wholly unacceptable that the Treasury signed a contract with an adviser denying it access to the financial models developed to inform its decision on Northern Rock. Departments should retain the power to examine the financial models developed by their advisers and use this access to gain a thorough understanding of how these models work, their underlying assumptions and the impact on the resulting financial analyses.

7. **The Treasury unthinkingly followed common investment banking practice in its initial remuneration agreement with Goldman Sachs, despite the unusual nature of the situation.** The initial contract with Goldman Sachs included a success fee of £4 million even though there was no clear definition of success in a complex and evolving situation. In the Treasury's view, a success fee was necessary because it was common investment banking practice and would incentivise Goldman Sachs to do a good job. This argument reveals the extent to which the Treasury felt unable to challenge its investment bankers. In future it should not slavishly follow industry practice.

8. **In practice, the Treasury sensibly chose not to pay Goldman Sachs a success fee.** The main problem with the £4 million success fee was that success had not been defined. Such fees should only be paid where clear criteria for success can be established up front, and where it is clearly in the interest of taxpayers.

9. **It is wholly anomalous that the Comptroller and Auditor General may report on the work of the Treasury at his discretion, yet has to wait for an invitation before he can look at the work of the Financial Services Authority.** With billions of pounds of taxpayers' money now at stake in the banking sector, there is an overwhelming case for Comptroller and Auditor General to be given unfettered power to audit the work of the Financial Services Authority as a matter of urgency. The Treasury has given us a commitment to look again at this issue. We hope to see early progress towards rectifying this anomaly.

1 Protection of the taxpayer ahead of nationalisation

1. The run on deposits at Northern Rock in September 2007 and the company's subsequent search for a solution, culminating in public ownership in February 2008, was the first major test in recent times of the Treasury's capacity to deal with a bank in difficulty. By 2007, Northern Rock had grown to become the fifth largest mortgage lender in the UK. To finance its growth the company depended on raising funds from wholesale sources such as other banks, and selling its existing mortgage book to investors. In August 2007, credit concerns stemming from bad debts in the US mortgage market caused banks to curb their lending to each other and investors to stop buying mortgage-backed securities. Northern Rock began to experience problems raising funds and asked the Bank of England for emergency financial support.

2. When Northern Rock's customers became aware of the support, queues formed outside branches and, over a few days, £4.6 billion was withdrawn. The Treasury stabilised the situation by providing a series of guarantees to retail depositors and wholesale lenders. This action avoided the immediate risk of problems spreading to other banks.

3. Following the guarantee of retail deposits in September 2007, the Treasury set itself objectives to guide its search for a longer term solution. The objectives, announced in October 2007, were to: protect the taxpayers' interest, protect consumers and maintain financial stability.[2] The Treasury evaluated a number of options including:

- **closure**—stop taking new deposits and writing new mortgages, and begin a process of winding down the company to sell assets to pay off liabilities, either in administration or via a solvent wind down, and
- **maintaining a viable business**—either by finding a private sector buyer or by taking the company into public ownership.

Based on its assessment of the options against the objectives, the Treasury decided that there was a reasonable prospect of a private sector buyer coming forward and that this should be pursued first. The Treasury decided that public ownership should not be an immediate response.[3]

4. The Treasury considered the search for a private sector solution to Northern Rock's difficulties to be a matter for the board of directors, which had remained in place and was accountable to shareholders. The Treasury was at this point a major creditor but did not control the company. The Treasury therefore judged it could not directly intervene in the bidding process run by the company, although it was kept informed of progress. Any decision over a purchaser required its agreement.

2 C&AG's Report, para 2.2

3 C&AG's Report, paras 2.3, 2.5–2.12

5. During Autumn 2007 a number of bidders expressed varying degrees of interest in buying all or part of Northern Rock, culminating in bids from Virgin and the Northern Rock management team in February 2008. Bidders nevertheless reported that the sale process had been frustrating and confusing, partly as a result of the company employing three sets of advisers.[4]

6. By the end of 2007, with market conditions continuing to deteriorate, it had become clear that private bidders would have difficulty raising the finance necessary to repay the Bank of England loans. By early 2008, the Treasury had significant doubts about the deliverability of the private sector bids, although closing Northern Rock offered the prospect of even greater losses. The Treasury decided to bring Northern Rock into public ownership in February 2008 because it offered the best prospect of protecting the £51 billion of public loans and guarantees provided to the company.[5]

7. Under the terms of the emergency support, the company had been required to significantly reduce the volume of new mortgage business undertaken. The volume of lending fell from 5,800 loans a month to 500 a month in late 2007. However, Northern Rock continued to write loans of up to 125% of a property's value ('Together loans') throughout the period that it was receiving emergency support, albeit at a reduced volume.

8. Around £750 million of new Together mortgages were written during the period September 2007 to February 2008. At the time, the Treasury considered there to be a reasonable possibility that Northern Rock could be sold quickly to a private sector buyer. House prices were rising and the economy was still growing. In addition, the taxpayers' interest had been secured on high quality assets.[6]

9. In allowing Northern Rock to continue writing mortgages whilst receiving emergency support, the Treasury had sought to balance protection of the taxpayer's interest (by reducing the volume of mortgage business) with a possible sale to prospective bidders (who saw the company's principal value lying in its mortgage business). The Treasury accepted that the volume of Together loans sold by the company during this period, although diminishing, was too high. The Together product was withdrawn from the market on nationalisation in February 2008.

10. At 31 December 2008, Together mortgages represented around 30% of the mortgage book, but about 50% of overall arrears and 75% of repossessions. The Treasury is now encouraging the company to write mortgages in line with the 70–80% loan-to-value ratios now offered by other lenders.[7]

11. The Treasury's appraisal of the options available to it was based on information provided by Northern Rock management. The contract with Goldman Sachs, the Treasury's financial adviser, excluded any validation work on the information that Goldman Sachs received from Northern Rock. The Treasury did not put in place its own arrangements to validate the information supplied by Northern Rock, and in the lead up to

4 Q 6; C&AG's Report, paras 19, 2.13, 2.19, 2.22

5 Q 25; C&AG's Report, paras 21–24

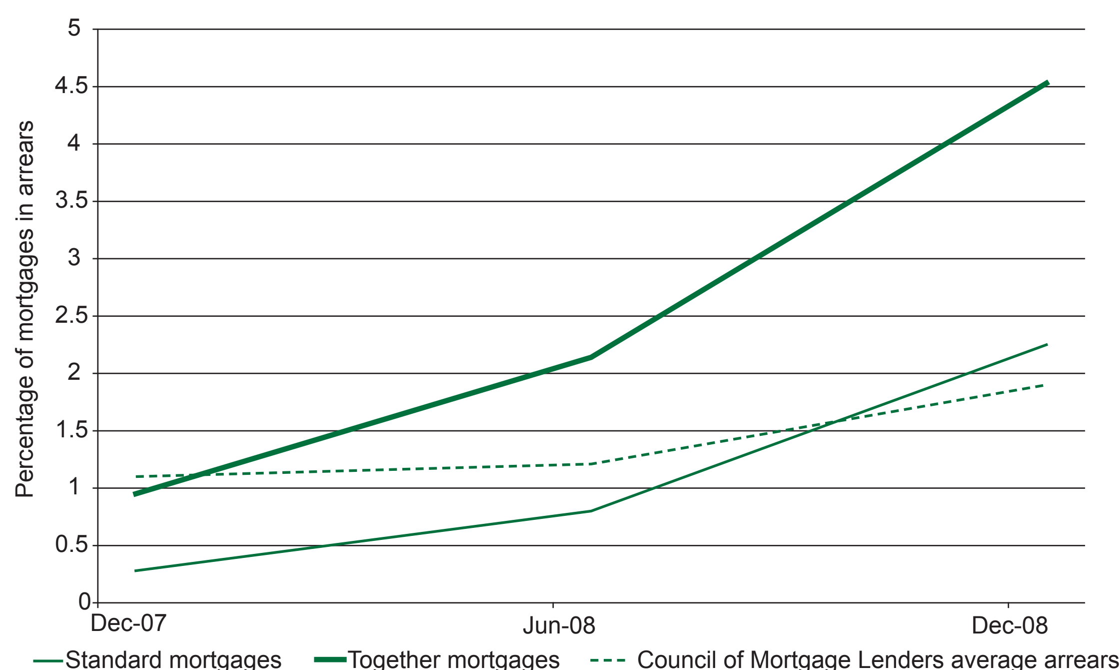
6 Qq 7–8; C&AG's Report, paras 11–12

7 Qq 30, 33, 74, 87–88; C&AG's Report, paras 12, 3.15

public ownership, the Treasury did not commission its own due diligence on the company, for example, on the quality of the loan book. The Treasury had relied on work done by the Financial Services Authority as regulator, and Ernst and Young on behalf of the Bank of England as lender. In addition, the private sector bidders had undertaken their own due diligence, although the Treasury did not have access to this work.[8]

12. Following nationalisation, the new management team at Northern Rock discovered that the company had capitalised arrears on its mortgage book at a much earlier stage than other lenders. As a result, the performance of Northern Rock on arrears compared to other banks looked better than it actually was. The auditors of the company had previously missed this understatement of arrears. The bidders, as far as the Treasury was aware, had not spotted the understatement either. When the policy on capitalising arrears was changed in May 2008, the reported rate of arrears increased significantly. The Treasury acknowledged that Northern Rock's arrears were now higher than the rest of the industry (**Figure 1**).[9] In April 2009, Northern Rock announced that the number of residential mortgages in arrears had increased from 2.92% of all accounts at 31 December 2008 to 3.67% of all accounts at 31 March 2009.[10]

Figure 1: Arrears on Northern Rock mortgages compared with industry average



Source: C&AG's Report, Figure 13

13. The financial analysis underpinning the decision to opt for public ownership was prepared by Goldman Sachs. Treasury officials tested the assumptions used in the financial analysis of options prior to public ownership, and a number of the assumptions were

8 Qq 62, 65; C&AG's Report, paras 28, 2.43

9 Qq 9–10, 55–56; C&AG's Report, paras 3.2–3.3, 3.24

10 *Northern Rock Quarter 1 Trading Statement*, published on 23 April 2009

changed as a result. Contrary to good practice,[11] the Treasury did not check the detailed calculations in the underlying spreadsheets.

14. The National Audit Office asked the Treasury to request the detailed calculations but Goldman Sachs declined this request. Under the terms of the contract with the Treasury, the financial model remained the intellectual property of Goldman Sachs. In contrast, when the Treasury dealt with the problems at Bradford & Bingley in September 2008 it employed a different investment bank and did have access to the financial modelling.[12]

11 Committee of Public Accounts, Forty-fourth Report of Session 2003–04, *New IT Systems for Magistrates' Courts: The Libra Project*, HC 434, conclusion (iv); Treasury Minute response, Cm 6105 (January 2004)

12 Qq 70, 73

2 The capacity and readiness of the Treasury

15. The events at Northern Rock presented the Treasury with a situation unprecedented in the United Kingdom in recent times. Since 2004 the Treasury had been aware of potential shortcomings in the arrangements for dealing with a financial institution in difficulty. A scenario test undertaken by the Bank of England, Financial Services Authority and Treasury had identified weaknesses in the arrangements for dealing with insolvent institutions posing a systemic risk, in particular, how such a situation might be handled and by whom. Prior to 2007, however, the Treasury did not consider work to improve the arrangements to be a priority.[13]

16. The economic models used by the Financial Services Authority and the banks had not predicted the closure of the wholesale funding markets, which had prefigured the crisis at Northern Rock. But the Bank of England and the Financial Services Authority had warned about the scale of credit expansion in the United Kingdom. Prior to 2007, the Treasury's assumption was that, if the capital markets were disrupted, the cost of borrowing would go up but the availability of funds would not be affected.[14]

17. The Treasury acknowledged that there had been gaps in its legal powers to deal with a bank in difficulty and that its work to correct the shortcomings should have had greater urgency. From early 2007 the pace of the work had increased and the Treasury had planned to publish a consultation document in Autumn that year. New legislation, including special powers to deal with financial institutions in difficulty, received royal assent in February 2009.[15]

18. To access a range of commercial experience and specialist expertise not ordinarily available internally, the Treasury had made extensive use of professional advice from commercial lawyers, investment bankers and accountants to help solve Northern Rock's difficulties (**Figure 2**). The Treasury acknowledged, however, that certain core functions should not be contracted out, including design of the regime for financial regulation. The Treasury also needed to have an in-house capacity to be able to ask intelligent questions about the advice from external consultants.[16]

19. The Treasury had agreed initially with Goldman Sachs that the firm's remuneration would consist of a retainer of £300,000 a month plus a success fee of up to £4 million. However, the Treasury had avoided specifying what success might look like early on for fear of creating the wrong incentive. In October 2007, for example, success might have been defined as a sale of Northern Rock to the private sector. But once it had become clear

13 C&AG's Report, paras 31, 4.2

14 Q 20

15 Qq 1, 12, 24, 47; C&AG's Report, para 31

16 Q 2; C&AG's Report, para 34

that a private sector solution would offer poor value for money to the taxpayer compared to public ownership, such an incentive would have been perverse.[17]

Figure 2: Advisers to the Tripartite Authorities

	Scope of work	Fees to 28 February 2008 (£m)	Fees from 1 March 2008 (£m)
Slaughter & May	Strategic commercial legal advice and drafting of legal agreements. Employed on an hourly rate.	6.1	3.3
Goldman Sachs	Analysis of private and public sector options and market advice	3.8	1.0
Ernst & Young	Advice on the financial position of Northern Rock, monitoring of its operations, development of a management information framework, reviews of the company's repayment plans for depositors, the option of administration and business plan under public ownership. Engaged by the Bank of England but advice shared amongst the Tripartite Authorities.	3.3	1.0
Clifford Chance	Engaged by Bank of England to provide legal advice	1.9	0.5
BDO Stoy Hayward	Appointed in September 2008 to assess any compensation payable under the Northern Rock plc Compensation Scheme Order 2008		4.5
Other Advisers		1.4	
Total		**16.5**	**10.3**

Source: C&AG's Report, Figure 17

20. The Treasury argued that it had been important to incentivise Goldman Sachs to do a good job and that the use of a success fee was a common feature of remuneration practice in the investment banking sector. But in resolving the problems at Bradford and Bingley in September 2008, the Treasury employed another investment bank, Morgan Stanley, as its adviser on a fixed fee basis. Ultimately, the Treasury decided not to pay the success fee to Goldman Sachs.[18]

21. Since the Northern Rock intervention, the Treasury had significantly increased the number of staff working on financial stability issues. Around 60 staff worked on financial stability in 2007. This number had since increased to 120 and the Treasury had plans to increase the number to over 160 by the end of 2009. The Treasury believed it now had a better knowledge of what was going on in the Bank of England and the Financial Services Authority than previously. In time, it thought it might be able to step back a bit but it recognised that it would need to remain closely involved with financial stability issues.[19]

22. The Comptroller and Auditor General has not been able to report on the regulatory activities of the Financial Services Authority. The Financial Services Authority currently lies outside his statutory remit although he may undertake an audit if invited to do so by

17 Qq 3, 4; C&AG's Report, para 4.17

18 Qq 3, 5, 85; C&AG's Report, paras 35, 4.21

19 Qq 35, 42

the Treasury. Since the establishment of the Authority in 2000, he has been asked to report on the work of the Authority on one occasion, and then only within a remit defined by the Treasury and the Authority. The Authority is a company limited by guarantee and is funded by a levy on the financial services industry. The Comptroller and Auditor General already has power to report on the work of other regulators funded by levies from industry, such as Ofgem and Postwatch, and since 2007 has been able to audit companies limited by guarantee. The Treasury accepted that the time is now right to review the Comptroller and Auditor General's right of access to the work of the Authority.[20]

20 Qq 39, 80–81; C&AG's Report, para 8

3 The Treasury's oversight of Northern Rock in public ownership

23. Since taking Northern Rock into public ownership, the Government's intention has been to allow the company to operate at arms-length from Government on a commercial basis. A new Chairman was appointed in February 2008 and by the end of that month the board had appointed new members and removed old members.[21]

24. Northern Rock's initial business plan in public ownership quickly proved to be optimistic. The plan was approved by the Treasury in March 2008, six weeks after taking the company into public ownership. In August, the company reported losses of £585 million for the six months to June 2008, £314 million higher than the base case forecast and worse than the recession case used in the March 2008 business plan.[22]

25. The Treasury did not challenge with sufficient rigour the company's initial forecasts of future trading conditions before approving the initial business plan. The base case had assumed a house price fall of 5% in 2008. The Treasury had accepted the company's forecast that house prices would not change significantly between 2008 and 2012, even though external forecasts at the time had predicted large falls (**Figure 3**).[23]

Figure 3: Comparison of Northern Rock's assumptions on house prices with market traded house price futures

Trading in forward contracts during:	Annual implied change (percentage)			
	Year 1	Year 2	Year 3	Year 4
September 2007	0.0	2.0	3.0	8.0
October 2007	-6.5	-6.5	-6.5	-4.0
November 2007	-8.0	-8.0	-7.0	-4.5
December 2007	-9.0	-10.0	-10.0	-7.0
January 2008	-9.0	-11.0	-11.0	-11.0
February 2008	-8.0	-11.5	-11.5	-9.0
March 2008	-8.0	-13.0	-14.0	-11.0
Business Plan: base case	-5.0	0	0	0
Business Plan: recession case	-10.7	-2.3	-6.5	1.8

Source: C&AG's Report, Figure 15

26. The company's business plan had included a recession case where house prices fell by 20% over the three years, which in the Treasury's view was not unreasonable. The reductions in house prices in early 2008 had been small and had only begun to accelerate in April-May, after the plan had been approved. By the end of 2008, actual house price falls had reached 13.5% over the year.[24]

21 C&AG's Report, paras 3.2–3.3

22 Q 17; C&AG's Report, paras 27, 29

23 C&AG's Report, para 27

24 Q 16; C&AG's Report, para 3.21

27. The Treasury confirmed that one of its highest priorities remained to protect the taxpayers' interest in Northern Rock. To achieve this, the Treasury would hold the outstanding mortgage book to maturity if necessary. By the end of December the company had repaid £11.3 billion of the taxpayers' loan compared to a target for the year of £8.3 billion. In February 2009, the Government announced that to support lending in the economy Northern Rock might be allowed to begin writing new mortgages, expected to be worth £14 billion by 2010. Additional funding to support this lending would be provided in part by an increase in the Treasury's outstanding loan to Northern Rock, with an extended repayment schedule.[25]

25 Q 18; C&AG's Report, paras 3.12, 3.27

Formal Minutes

Monday 1 June 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson
Mr Nigel Griffiths
Geraldine Smith
Rt Hon Alan Williams

Draft Report (*The Nationalisation of Northern Rock*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 27 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirty-first Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

[Adjourned till Wednesday 3 June at 3.30 pm

Witnesses

Monday 30 March 2009 *Page*

Sir Nick Macpherson, Permanent Secretary, HM Treasury, and **Mr John Kingman,** Chief Executive, UK Financial Investments Ev 1

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 30 March 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr David Curry
Mr Alan Williams

Mr Tim Burr, Comptroller and Auditor General, **Mr Ed Humpherson**, Assistant Auditor General, and **Mr Peter Gray**, Director, National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Representative, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

THE NATIONALISATION OF NORTHERN ROCK (HC298)

Witnesses: **Sir Nick Macpherson**, Permanent Secretary, HM Treasury, and **Mr John Kingman**, Chief Executive, UK Financial Investments, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's *Report on the Nationalisation of Northern Rock*. We welcome back to our Committee Sir Nick Macpherson, who is Permanent Secretary to the Treasury, and John Kingman, who took the Treasury lead on the nationalisation before becoming Chief Executive of UK Financial Investments in November last year. You are both very welcome. Sir Nick, I know that Mr Kingman took the lead in all this but I will address my questions to you and please pass any answers over to him if you think that is more appropriate. Could we first go to the beginning of the story—and this is dealt with in paragraphs 4.2, 4.3 and 4.4 which you can find on page 38—and look at the scenario of it happening? There was indeed, way back in 2004, some scenario, apparently: "The Tripartite Authorities had identified weaknesses in the arrangements for dealing with insolvent institutions . . .", but we read further on in this report, "At this stage, work on improving existing arrangements was not considered within the Treasury to be a priority . . .", so you knew in 2004 that there would be a problem if a major bank got into difficulty, obviously. Why then, Sir Nick, in 2007 was there nothing in place to address this problem?
Sir Nick Macpherson: Chairman, I think that is a very good question and, with the benefit of hindsight, we should have treated this work with greater urgency, but at the same time we had survived without that legislation for 30, 40, 100 years without having a problem. We did take the work forward, although it was taken forward at perhaps an excessively leisurely pace, but from early 2007 the pace of that work picked up and we were planning to publish a consultation document that autumn. In the event it was too late. Again with hindsight, it would have been great if we had followed that through but it would have taken quite a lot of parliamentary time. As it was, the quite urgent legislation we took through earlier this year took two periods of consultation, a major consultation paper and quite a lot of parliamentary time. Obviously, in future, if we came across some equivalent problem, we would pursue it on a more urgent basis.

Q2 Chairman: That is a very honest answer. I wonder whether there was something in the ethos and the history of the Treasury—quite a small department employing 1,000 people, spending £100 million. If you look at figure 10, for instance, on page 27, "Comparison of cashflow to taxpayer", I do not want to go into details now but it sets out the rationale for nationalisation. It is interesting, is it not, that, if you look at the bottom left hand corner, the source is Goldman Sachs? This was not some great document prepared by one of your mandarins or something. You had to go outside. I just wonder whether in that sense you were unprepared because traditionally you were a department which was controlling public spending in the UK and this, frankly, caught you by surprise. In your earlier reply you have been quite honest about that.
Sir Nick Macpherson: I think the report is very constructive and I want to be honest about these things. I think it is worth distinguishing technical financial modelling from the design of the regime of financial regulation. That is not something which I would want to see contracted out, and when we introduced the legislation which was enacted in February that was very much a Treasury job. You may want to criticise it but that was very much put together within the Treasury. There are certain core functions which I do not think the Treasury as an organisation should contract out, but, equally, at any point in time you need to be able to buy in expertise. Otherwise, if we had an internal investment banking arm for 19 years out of 20 it would have nothing to do, and in those

circumstances I think it is legitimate to get in consultants, in this case Goldman Sachs, but we also need to have an in-house capacity to be critical, to ask intelligent questions and be an intelligent client.

Q3 Chairman: While we are on Goldman Sachs can we look at paragraph 4.17? You made a provision for "a success fee of up to £4 million" for Goldman Sachs, but when you made this provision nobody defined what success was. I know in the end the success fee was not actually paid in those terms but did you have a firm enough grip on these things?
Mr Kingman: On that point, Chairman, I would take a different view. We have quite a fundamental disagreement with the NAO on this point. We do think that it is both important and valuable to be in a situation where advisers like this are incentivised to do a good job, and this sort of arrangement would be very common externally.

Q4 Chairman: But how did you define what success was or what it would look like when you made a provision of £4 million for it?
Mr Kingman: We thought about this quite hard at the time and whether we could define success, but what we were seeking to avoid was giving Goldman Sachs a perverse incentive to pursue any particular course. If you think back to the reality of October, the overwhelming likelihood if we had defined success was that we would have defined it as securing a private sector sale and I think that would have been a really bad incentive for Goldman Sachs to have had because, as we now know, the only available private sales were poor value for money.

Q5 Chairman: You are making a very good case, Mr Kingman, for not having a success provision.
Mr Kingman: I do disagree in a sense, and I would cite as evidence the fact that we did not actually pay the success fee and I think we were quite tough-minded about it.

Q6 Chairman: Let us not spend too much time on that because that is just one part of it. Let us go to the heart of this. We are now in September 2007 and, if we look at paragraph 2.18, my question now, Sir Nick, really goes to the heart of what I want to ask you. Why did you allow the company so much freedom to find a solution? After all, from September 2007 to February 2008 we, the taxpayer, were now guaranteeing £51 billion. There was a lot of money at stake. It seems, perhaps because of the nature of your department, perhaps because you were not prepared enough, that you just had too light a touch at that stage. It says here, "The Treasury saw the search for a solution as a matter for the company and its board . . .".
Mr Kingman: That was legally the case but I think it would be wrong to get the wrong impression. I was at this time probably talking to the board of the company, to the senior independent director, several times a day and we were very closely involved in the process. It was always very clear that any sale would have to have our agreement and so we were closely involved, but at this point the company was owned and controlled by its shareholders and we had legal advice telling us to be very careful about exposing the taxpayer to further liabilities by standing in for the directors. This was not an abstract concern. We were sued in the event, as you know, and therefore concern about a lawsuit was running through this period.

Q7 Chairman: If you put it that way it seems to make sense, but what was going on through this period where we, the taxpayer, were already committed? You allowed the company, because you were in a sense in a controlling position, to go on issuing these Together mortgages. Let us look at this, shall we? It is Box 5 on page 32. The Together mortgages, by the way, for anybody watching this, are the riskiest mortgages. They are the lending closest to sub-prime. They are not just 95% of the value of the home; they are 30% on top of that, completely unsecured; you can do anything you like with them, you can buy a car or whatever. "Northern Rock introduced the Together mortgage in 1999. The product provided home buyers with the opportunity to borrow up to 125% of the value of the property they wished to purchase". We now know that this was all part of the problem. My question to you, Mr Kingman or Sir Nick, is that you went on allowing them to do this after September when you should have been in charge or you should have put a stop to it, £800 million of this stuff.
Sir Nick Macpherson: Can I start by providing some context and then John may want to explain what happened in terms of the loans themselves? Northern Rock got into difficulties not because it had lots of bad assets. Actually, at the point when it got emergency support its mortgage book appeared on the face of it to be in a pretty good state. What drove Northern Rock into the Bank of England's hands was the drying up of wholesale credit. The other point I would make is that at that time house prices were still rising, the economy was still growing. It seemed a reasonable possibility that we would be able to sell Northern Rock reasonably quickly to a private sector buyer, and indeed there was interest both in the run-up to September and also subsequently through the course of the autumn. Then, if you look at the loans themselves, as John is about to describe, most of them had already been committed at the point when Northern Rock sought support.
Mr Kingman: And I do think that if we—

Q8 Chairman: On that point I was told that in this period there were £800 million of Together mortgages. You are saying it was already committed?
Mr Kingman: There was a very drastic tightening off during the period. There was £750 million of new business done during the period September to February, of which £600 million was done in September and October, during which time the

taxpayer's interest was secured on high quality assets in Northern Rock and therefore the taxpayer was not directly at risk. The amount of this lending that was done really fell off very substantially. It came off from 5,800 a month down to 500 a month. I think it is also worth bearing in mind that when we look at this these are loans of up to 125%. Actually, only 5% of them were 125% loans. The average was 106% and a third of them were sub-100%.

Q9 Chairman: If we look at figure 13, "Arrears on Northern Rock's standard and Together mortgages . . .", we can see that, whatever you say, clearly they are very risky, are they not?
Mr Kingman: They are higher.

Q10 Chairman: That figure there is pretty stark, is it not?
Sir Nick Macpherson: The arrears were going up across the industry, but you are right: the figure of 4.5% is high.

Q11 Chairman: Yes, the industry average was under 2%. Let us go on because time pushes on. Let us look at your planning and what you were doing up to Christmas 2007. If we look at paragraph 2.31, why did you wait until Christmas to have this draft Bill ready? A draft Bill to nationalise Northern Rock was not ready until Christmas 2007. Why did it take so long to get a draft Bill ready?
Mr Kingman: I think the answer to that is that we decided in September that we ought to have it there as a contingency piece of work. It was not a simple piece of legislation; it required quite a lot of work and thought, and ministers had decided in September that that was not their lead option for the resolution of Northern Rock. This was done urgently and I think the work is described in the report as "timely".

Q12 Chairman: Of course, when we had a problem with Bradford & Bingley you were much better prepared, but it begs the question, going back to my very first question, that perhaps if you had done more work from 2004 onwards you might have been better prepared. It is not just being wise after the event, given that in 2004 you had identified this as a real problem. It just seems strange that you had to wait till Christmas to get this draft Bill ready.
Mr Kingman: Nick has already touched on that. The other point I would add on the 2004 work was that it was not as if the 2004 exercise had sprung forward and said, "This is the legislation we need". It had identified at a very high level that there were going to be things that we needed to think about and those things were thought about but, as Nick said, they just were not done as quickly as they should have been.

Q13 Chairman: Let us move forward then to the business plan. This is mentioned in paragraph 3.21. We are now in March 2008. Why did you approve a business plan on public ownership that was so over-optimistic about the future state of the economy? It was, was it not?
Mr Kingman: I would agree.

Q14 Chairman: So that was a mistake, was it not?
Mr Kingman: With the benefit of hindsight I would say it was optimistic but at the time I do not think that is altogether fair. I have got in front of me the house price forecasts we had available to us in mid January, and out of the eight forecasts at that time six were that house prices would either be flat or rising.

Q15 Chairman: Hang on—your business case assumed a 5% fall in house prices.
Mr Kingman: Correct, but I am saying—

Q16 Chairman: In fact we had a 13.5% fall, and I am not just being wise after the event. After all, you are the Treasury. You are supposed to know what goes on. Let us look at figure 14, "Published forecasts of changes in house prices". Let us look at some of these predictions which were being made in January 2008—the London School of Economics minus 20, Morgan Stanley minus 20. This is not just being wise after the event. The fact is that your business case was very optimistic, was it not?
Sir Nick Macpherson: The 20 and 30 were definitely outliers at that time. I think at that time most people were talking about flat or a fall of 5%. I have got a quote from Halifax in March saying, "We predict that house prices will be flat during 2008 as a whole". It was at a point when the housing market was really beginning to turn. There had been very small reductions month by month at the beginning of the year and it was only in about April/May that the fall really got going. The business plan had a stress case where house prices fell by 20%. Given what we knew then, that was not an unreasonable stress test to make.

Q17 Chairman: Hang on. The loss announced for six months to June 2008 was in fact £585 million. That was £314 million worse than the base case approved only three months earlier. You were that much out.
Sir Nick Macpherson: We were, but you can get excessively fixated about house prices because, since the business plan was designed to redeem as many mortgages as quickly as possible whether house prices rose or fell, the strategy would have remained the same. As it was, as you say, the losses have been bigger, but the strategy remained, until very recently when the decision was taken to expand the mortgage book again, completely the same throughout 2008.

Q18 Chairman: How are we going to ensure that the taxpayer does not lose out on the sale of Northern Rock? You do not have a great track record so far, do you?
Sir Nick Macpherson: It is a very big priority. The one thing the Government can do, especially in relation to the mortgage book outstanding, is hold that mortgage book to completion if necessary and that may well ensure that we get a decent return, but I accept that the taxpayer has, inevitably perhaps,

contributed quite a lot of funding to Northern Rock through this period. It is the Treasury's number one priority to protect the taxpayer, but the alternative would have been to close the bank down and I think that would have had a far more damaging effect, not just for the economy but also for the taxpayer.

Q19 Mr Curry: Sir Nick, I did my back a serious injury over the weekend when I fell into a ditch onto an exposed root, so if I at some stage get up and walk around it is not a discourtesy; it is simply that I have to keep the thing lubricated. The climate we are talking about before Northern Rock went bust was one when every couple of days I was getting things through the post offering to lend me money at outrageous amounts of interest when I switched credit cards. It was a very permissive financial climate, was it not?
Sir Nick Macpherson: In retrospect, yes.

Q20 Mr Curry: What interests me about Northern Rock is that here we have a company where the classic model is that you take money in and you lend it out. Northern Rock then did what many other institutions did. They raised money from the wholesale markets, they sold lots of mortgages, they securitised their mortgages, they did some carry trade. That was not unusual. What was unusual was the extent and the dependence on it. They got to 70% dependence and at one stage they were writing pretty well 20% of all mortgages. Skipton Building Society in my constituency never raised more than 30% from the wholesale market. My question is, was it that the regulators had no mandate to be interested in what appeared to be a quite exceptional thing? Was it that they were concerned with process, not with companies? Did nobody in any of this tripartite structure suddenly say, "Hang on. This really looks a bit exposed—70% on the wholesale markets. They must be turning over their whole assets, about a third of their assets nightly practically, renewing their credit lines"? Did nobody sound a warning? Did nobody say, "Something is twitching", or was the structure not designed to do that?
Sir Nick Macpherson: Mr Curry, you raise two issues here. One was how the regulatory regime was applied to Northern Rock and the other was the regulatory regime as a whole and whether the Bank of England, the FSA or the Treasury saw the credit crunch coming. I think it is fair to say on that that there were warnings about the scale of credit expansion. I think both the Bank of England and the FSA made points around that, and indeed the Treasury was conscious that the global imbalances were creating an environment where perhaps credit was unusually available. The interesting thing though was that conventional models which both the FSA and the banks were using did not predict that wholesale markets would dry up altogether. The assumption was that if anything was going to happen the cost would go up but the cost going up would still allow markets to clear. What was extraordinary in August 2007 was that the market just dried up completely. You could not raise money in the wholesale market.

Q21 Mr Curry: So nobody expressed concern about the process? There was not what you might call a prudential set of values or a framework in which you said, "This company is now exposed to the tune of 70%. Whether or not it can continue to get its money on the wholesale market, we are just a bit concerned about that level of exposure"?
Sir Nick Macpherson: The FSA were responsible for the regulation of individual institutions. I think they had a very honest internal audit report, which they published a year or so ago, which revealed that the regulatory regime as applied to Northern Rock fell short, perhaps quite well short, of good practice. There was not enough engagement with the firm, there was not enough senior management attention paid to Northern Rock, so there are big lessons for the FSA, I certainly would not dispute that. However, coming back to my opening point, the way people viewed the world prior to the autumn of 2007 was such that you just did not pick up this possibility. I read somewhere recently that, according to some model, maybe one that a big investment bank was using, the probability of this happening was 25 standard deviations, which is the equivalent of winning the National Lottery every week for a year, ie, completely impossible. That is not saying that that estimate of probability was right but it does show quite how wrong the prevailing models were.

Q22 Mr Curry: But it would have been quite difficult to ride shotgun on the day-to-day business of an individual bank, would it not? You cannot send a commissar to Northern Rock who sort of sits alongside the chief executive and says, "Please may I read the emails?", can you?
Sir Nick Macpherson: The whole point about principles-based regulation is that you should on the whole home in on institutions which are in difficulties. Take the example of Dunfermline today. It became clear that Dunfermline's practices were putting them in breach of their thresholds and action was taken. There is a role also for the regulator to warn. You do not want an organisation to fail, so in an ideal world the regulator would pick this up early, advise, warn, and action would be taken. In the case of Northern Rock it was not.

Q23 Mr Curry: But now we have moved forward, have we not? You have got the FSA 8:6:4 ratios, and so the reason Scarborough was told that it was deemed no longer to be a going concern was not because it had bought huge amounts of dumb assets or something had gone fundamentally wrong. It was that it simply was not hitting those ratios and so it was told, "Sorry, there is no future for you", and I think it is probably the same in the latest case. The Nationwide has just done its third good turn to the Government, has it not, because we have had the Derbyshire and we had the Cheshire before this one, so the Nationwide is busily becoming the fairy godmother of the financial services industry?
Sir Nick Macpherson: It is, but I think it is important that the mutual sector has a future, and if Nationwide can play that role it is probably in the wider public interest.

Q24 Mr Curry: I want to come back to this in a minute, but let us move on. It was obvious there was a crisis at Northern Rock it took a long time before the solution was put together and you have explained and Mr Kingman has explained some of the reasons why that was. At the same time this was happening we had this little bit of bother in France, did we not, with Société Générale, and over the weekend the French government cleared it up? I cannot help but feel that had this been in France we would not have agonised in public for such a long time over possible solutions. It would have been sorted and we would not have had people queuing round the block, wonderful publicity for the rest of the world.
Mr Kingman: I think there are two issues there. First, it was clear that we did not have the legal powers and as a result of the bill used to nationalise Northern Rock we now do have the powers and therefore you can do things like the Bradford & Bingley thing, which was literally done over a weekend.

Q25 Mr Curry: I will tell you a story about the Prince of Wales in a minute as well.
Mr Kingman: The other point I would make is that it was not obvious in October that there was no private sector solution. If there had been I do not believe we would have acted in the way we did. What we were up against was this extraordinary fact that you could not finance perfectly high quality assets in the market at anything resembling 100% of their value. That was what we found ourselves up against and the judgment that was being made in those weeks and months was, can anybody crack that problem and will markets begin to adjust? Nobody had any idea at that point that the markets were going to be dislocated for as long as they were. That is the honest reason.

Q26 Mr Curry: Is it your judgment now that the tripartite system of regulation that was then set up is bust, or is it your assessment that that can be repaired because there is more of an incentive to be prudential?
Sir Nick Macpherson: I think the basic principles which inform the tripartite approach still hold good and I think it is still a perfectly sensible framework. The lesson of 2007 is that whatever framework you have has to be applied to the highest standard and that from time to time you need to update the framework. We have done that through the 2009 Banking Act and I think it is now a perfectly sensible framework and one which other countries still seek to copy. Mr Geitner in the United States announced his proposals recently and it is interesting that they are moving away from having a multiplicity of regulators to trying to create a system quite similar to ours.

Q27 Mr Curry: Could I then come back to the Nationwide and the Skipton? The Skipton Building Society is not in the super league but it is right at the top of the next league, and the Skipton Building Society is liable, of course, for a financial compensation scheme so it has just made a provision for £16.8 million over three years, which is the equivalent of 0.2% of the rate it can lend to savers, and, as you know, trying to get an interest rate of more than 0.1% at the moment is—I do not know; the sensible is to put your money under the mattress. The Nationwide will shortly announce its results because we are in a different financial year and the expectation is that the provision it may have to make may run into three figures. It is not fair, is it, that the mutuals should be hit on the same basis as the other financial institutions? Would it not be more reasonable either to base it on the total assets or to do what Guernsey has done, however confidential it is, to base it on a risk basis, which after all is what the Pension Protection Fund is based on? There is going to be more consolidation and you are going to depend on some of the building societies to quietly take over some of the smaller societies which find themselves in jeopardy as the rules are applied.
Sir Nick Macpherson: I share your enthusiasm for the mutual sector. I think it is a key part of the industry and its interests need to be taken very seriously. The FSCS has been triggered today in relation to Dunfermline, which is a mutual, and in the Government's view it is right that the mutual sector should make its fair contribution to the scheme.

Q28 Mr Curry: It is the basis of it.
Sir Nick Macpherson: What I think is important is that the speed at which societies, and indeed banks, are asked to stump money into the scheme should reflect financial stability considerations. We need to keep that under review.

Q29 Angela Browning: Sir Nick, I thought when you were answering the Chairman, although I quite appreciate the impact the drying up of the wholesale market had, that you were a little bit dismissive of the impact of Northern Rock and their history of the Together mortgages. I would like to ask you a little bit more about that. It says in the NAO report on page 7 at paragraph 12, "The Treasury judged that mortgage transactions were necessary to maintain the business while a longer term solution was sought", but as we read through the report we can see that you did become a little bit more worried about these types of mortgages. I just wonder, as Northern Rock is today, what is the business plan in terms of lending for domestic mortgages with Northern Rock? What is your understanding of the business plan for it?
Sir Nick Macpherson: As of today it is to provide for £5 billion of new lending this year and next year between £3 billion and £9 billion of new lending. I should make very clear that we expect that lending to be done in line with best industry practice on a commercial basis, so I can assure you that it will not take the form of 125% loan-to-value loans.

Q30 Angela Browning: But what is the agreed business plan for domestic mortgages now? You say they are not going to go for 125%. Are they going to go over 100%? Are they going to be lending over 100% at the moment?

Sir Nick Macpherson: No. Precisely because we are concerned about the taxpayer we are encouraging them to do it in line with what the industry is currently doing, and my guess is—and I have not got the figures in front of me—that it will be around 70% to 80%. It is important that these loans are cautious and sensible but meet the demand which is out there for mortgages at present.

Mr Kingman: Since they were taken into public ownership the average loan-to-value of new business done by Northern Rock has fallen from 72% to 58%.

Q31 Angela Browning: That is encouraging but you also now have a role in overseeing the way in which public money has been invested on behalf of other banks that we have invested in one way or another. I was concerned that you were not absolutely sure what they were doing at the moment. I know it is difficult to hold all these figures in your head but I want to have confidence that you know and are keeping a finger on the pulse of what sort of mortgages are being loaned by every institution in which the taxpayer has an investment because I believe that it is your duty to do that now because the terms of trade, I am afraid, have now changed.

Sir Nick Macpherson: I share your interpretation of our duty at the Treasury. This is very important. Our team has very regular discussions with Northern Rock, Bradford & Bingley and so on. We have a colleague, Tom Scholar, who is on the board of Northern Rock. We take a very close interest in what is going on and John, in his new role as Chief Executive of UKFI, also has regular discussions with the banks. I do not know if he wants to expand at all on the issue of mortgages.

Mr Kingman: I would simply add that the Government does have strong information flows on their lending practices as a result of the lending conditions that were attached to the recapitalisation of last October. It was a very important part of that agreement that the Government would get clear information flows and I am certainly unaware of any publicly owned bank which is lending in any significant way at that sort of LTV.

Q32 Angela Browning: What does "in any significant way" mean?

Mr Kingman: I am not aware of any lending above 100%. I cannot say that there is not a single mortgage somewhere; I just do not know that, but I do not believe there is.

Q33 Angela Browning: I would like to feel that if you were to come before this Committee again you could say quite categorically that you know that. I think you now have a duty to ensure that because, although this is not the only reason why we have this banking crisis, it has hit around the world, it does seem to me that from the layman's point of view, although a run on a bank came as a shock to us all, so too to many of us came the shock on what the terms of lending were that were being made. If you just look at these 125% mortgages, presumably 100% is secured by value that day of the bricks and mortar, but where on earth did they think the other 25% was going to come from? If we look, for example, at Bear Sterns, their business plan at the time was another disaster but they quite clearly believed, according to their business plan, that house prices would rise 6% to 8% year-on-year and they could not identify that that was ever going to end, but for the unsecured part of the loans (not the 100% but the unsecured part) nobody was surely thinking that wages were going to go up by 6% to 8% per year, so that amount is quite significant, that 25% of the loan was unsecured, unless, of course, it was anticipated that when the mortgage came to an end, and not all mortgages last very long these days, it would be rolled over and remortgaged. I would ask you to take a personal interest in what is going on in the banking system as far as mortgages are concerned because there are all sorts of products out there which are totally unsustainable for the people that are borrowing. It comes back to this question of the financial stability. If the Treasury judged, as it says in this report, that the transactions were necessary to maintain the business, what about the financial stability of the country, because clearly now you have a dual interest in this? You have an interest as far as the taxpayer is concerned for the money that we are investing in several banks, including Northern Rock, and in terms of the stability of the country it is obviously not good for the stability of the country if people cannot meet their debts and they are being sold products which quite clearly are unsustainable. I am rather concerned that you seem to be seeing this as a sort of peripheral issue.

Sir Nick Macpherson: I do not regard it as peripheral at all. It is very much central to what the Treasury is doing at present. You describe it absolutely rightly when you say this is relevant to the macro-economic situation as much as people's micro-economic lives and it is very important. It is very important that we support mortgage lending but mortgage lending which is sensible, which is not reckless but meets legitimate demand from individuals who aspire to own their own homes, so getting that balance right is critical. We have paid a great deal of attention to it recently and we are monitoring the banks' activities in a very serious way. What was also part of your question was that it was necessary to ensure that Northern Rock continued to lend money through the autumn of 2007 because a lot of the bank's value was tied up in the platform for delivering mortgages. But, like you, with the benefit of hindsight I can see that the amount of Together loans which were sold at that time, although diminishing, were still too high, which is why when we did nationalise it the whole Together loan package was withdrawn.

Q34 Angela Browning: Thank you, but there are reasons why the warning bells are ringing in my head. You have explained that you believe, and I hope when you get back to the office you will double-check, that none of these banks in whom we have

invested are lending above a level that is repayable, but, of course, since all this happened interest rates have plunged quite dramatically, so now the potential problem is not that people are over-borrowed because they have borrowed 120% or 125% of the value of their house, but that we are still in a depreciating market as far as house values are concerned and that the affordability per month, which at the moment is quite easy for a lot of people, is going to change, particularly for those people whose mortgages are flexible in the way in which the interest rate is structured, so down the track we could have another problem with foreclosures and people not being able to meet their mortgage payments when interest rates go up again, as inevitably they are going to do, and, who knows, in the current economic climate we are in, how steep that rise will be and it may not be that far away? That worries me, that we are now in a situation where again the taxpayer is going to be disadvantaged and also the so-called stability is going to be undermined because they are lending at a lower rate of value but that is in a climate where interest rates are particularly low.
Sir Nick Macpherson: Again, you are right to raise this. It is very important to get sensible lending, to get the right relationships between loans and the value of housing. It is also important that institutions do proper diligence on the borrower's income, their wider assets and look at the whole package. We would certainly encourage that but we will continue to monitor these issues for the reasons you set out.

Q35 Angela Browning: Thank you. I mentioned that the terms of trade have changed, which I think you seem to accept. If you look at page 51, which is Appendix Five, "The roles and responsibilities of the Tripartite Authorities", that is yourselves, the FSA and the Bank of England, it says quite clearly, when we look at that section right at the bottom of page 51, that "The Treasury has no operational responsibility for the activities of the FSA and the Bank . . .", but now that you hold on our behalf this huge investment in banks I would say that I want you to be much more hands-on because I think those terms of trade have changed because of that reason.
Sir Nick Macpherson: This is as much about how we make the tripartite system work as about the legal requirements of the system. Paul Tucker, the Deputy Governor of the Bank of England, said the other day that he would prefer more overlap than underlap, and I think that is a good point which reflects current reality. We meet the FSA and the Bank far more regularly than we did. There are far more meetings between the Chancellor, the Governor and the Chairman of the FSA, and there is far more informal communication among the three institutions. I can assure you that the Treasury has a far greater knowledge of what is going on day by day in the Bank and the FSA than it did several years ago. It may be that over time we can step back a bit, but, again, I think your question reinforces the point that the Treasury does have to get more involved in these issues. We have got more resources now in the area of financial stability and we will continue to work with the Tripartite Authorities very closely.
Angela Browning: Thank you. It is the case that many MPs have expressed great disquiet about the way the FSA is currently constituted, and it is an area I think many MPs would like to revisit.

Q36 Mr Bacon: Sir Nick, would you say that the Financial Services Authority have been subject to the audit of the National Audit Office in the same way that government departments are?
Sir Nick Macpherson: That is a good question.

Q37 Mr Bacon: It is, and an answer "yes" or "no" will do, because I have only got ten minutes and I have got lots of other questions.
Sir Nick Macpherson: Okay, well, I think it is something which we ought to reflect on and I will—

Q38 Mr Bacon: What is the answer?
Sir Nick Macpherson: I think I would like to take the issue back to Treasury and consider it and ensure that—

Q39 Mr Bacon: It is not a new issue. We have been talking about it with the NAO for years.
Sir Nick Macpherson: It is a new issue in one sense, that originally, when the relevant legislation was passed, the NAO could not audit companies limited by guarantee. I know that was changed, I think in 2007, so quite recently. Ministers reviewed this issue several years ago and as a result of that the NAO were invited to do the occasional VFM study of the FSA, but the point you are raising—
Chairman: Once since 2000, at your request. You requested them once in 2000.

Q40 Mr Bacon: I have got the impression you are going to take it back and get back to me.[1]
Sir Nick Macpherson: Yes.

Q41 Mr Bacon: I have been on this Committee since 2001 and I do not think the taxpayer has had good value for money out of the Treasury, the Bank of England and particularly the Financial Services Authority in relation to the way you have handled this issue of Northern Rock, and if the C&AG and his team had been able, at their behest and without any hedging around, to do value-for-money studies on the Financial Services Authority of whatever kind they wanted under the National Audit Act, in the same way that they can of the Department for Culture, Media and Sport, in the same they can with the Ministry of Defence, I think the problems that have been identified would have been identified earlier. The thing that staggered me most about your earlier answer to Mr Curry was this. He started off by saying to you that we have a very permissive financial climate and you thought very hard; there was quite along pause before you said, "In retrospect, yes", although what Mr Curry was

[1] Ev 12–13

referring to was this confetti of marketing coming through the door which sensible people threw in the bin. You did not need any retrospect to see that we had a very permissive financial climate. Then later, in answer to Mrs Browning, when talking about loan-to-value Together mortgages of 125%—and, by the way, if you look at page 33, note 2 in figure 12, based on six times income, 125% mortgages based on six times income,—you only have to look at the chart which I referred to earlier to see the gap between where Northern Rock Together mortgages were and the industry standard; it was huge. You did not need any hindsight to see that there was a problem about the amount of lending that was going on. Had we had a financial regulatory system that was fit for purpose this would have been picked up, but it was not and you are the helm, you are finance people. You got knighted in January. What was it for? Was it for your management of Northern Rock?
Sir Nick Macpherson: Is that a rhetorical question?
Mr Bacon: No. What were you knighted for?
Chairman: I do not think there is any point in getting personal like this.

Q42 Mr Bacon: All right, let us move on. In paragraph 4.7 it refers to the financial stability team inside the Treasury. It says it is headed up by "a senior civil servant and a team of 16 officials", although just a minute ago in your last answer to Mrs Browning you said, "I can assure you that the Treasury has a greater knowledge of what is going on in the Bank and the Financial Services Authority than it did several years ago". I would have thought that the job of that team—but perhaps it was not a big enough team—would have been to have an intimate knowledge of what was going on in the Bank of England and the Financial Services Authority. They should all have been talking to each other all the time. The system just broke down, did it not?
Sir Nick Macpherson: No, I do not accept that it broke down. Of course, the Treasury had quite a lot of knowledge about what was going on. You want to avoid duplication in these situations. If we were trying to do the FSA's job for it that would reduce clarity, reduce accountability, but the experience of the last few years has resulted in us putting more resources in this area. I think something like 60 people were working on financial stability in 2007. We have now gone up to something like 120 and my plan is to get above 160 people working there by the end of this year, so we are expanding our interest in this area. It is also the case that, even in 2007, although people were spread perhaps a little thinly, there were good information flows and that did help inform policy.

Q43 Mr Bacon: I did not mean if you had the legislation in place in time. I was surprised to discover that the powers were not available and that one of the reasons given by the Treasury for not acting was that it would take time to get the relevant powers available. You are the finance ministry of one of the most important economies of the world, the fifth or sixth largest economy in the world, and the Bank of England is one of the world's pre-eminent central banks. Are we really to believe that no-one had worked out in a detailed scenario planning exercise what would happen and what you would do if a major banking institution went down and made sure you had the powers available to exercise the power of government like that?
Sir Nick Macpherson: No, they had. There have been war games where we have gone through a whole range of scenarios.

Q44 Mr Bacon: But not the legislation in place. You did not have the powers, did you?
Sir Nick Macpherson: No, there were powers—

Q45 Mr Bacon: But not the right ones.
***Sir Nick Macpherson:*—** for example, for providing special liquidity assistance. The problem came when—

Q46 Mr Bacon: I am talking about the power to take a bank into public ownership if necessary. That is what I am talking about. Those powers did not appear to exist in the right form, did they?
Sir Nick Macpherson: No, and they had not existed under previous governments either. With the benefit of hindsight it would have been nice to have them.

Q47 Mr Bacon: You mentioned parliamentary time. You know as well as I do that in the right circumstances the Government could have got an Act through Parliament in one day. It has been done before, but the Treasury, which taxpayers pay, was not available and did not have ready on the books to come forward the right draft legislation, did it?
Sir Nick Macpherson: In retrospect we should have treated this more urgently, but it was not just the Treasury which was dragging its heels on this. The Bank of England was not putting pressure on us either. There was a general perception that this was not the highest priority.

Q48 Mr Bacon: Let me just ask you about the management of electronic records. It might be for the NAO, actually. Paragraph 4.12 on page 39 says at the top, "There were weaknesses in the treasury's management of electronic records". Could you perhaps, Mr Gray, expand on what that meant?
Mr Gray: We received information early on during the audit of submissions to ministers, as one might expect, in the normal way. It took some time for information kept, for example, in emails to be collated properly together. In a fast-moving situation people were emailing each other rapidly over that period. That was distributed across the department, across different individuals. People within the Treasury had to bring that information together so that we could then begin to go through it systematically, as you would expect auditors to do.

Q49 Mr Bacon: Mr Kingman, you wanted to say something.
Mr Kingman: Actually, what we did in this case was that we understood from the start that there was going to be enormous need to have a very clear audit

trail of everything we had done and we therefore set up a team alongside, as it were, the crisis team, whose job was to manage—

Q50 Mr Bacon: To be the keeper of the flame?
Mr Kingman: Correct, and they did so, and it is absolutely true that getting the information sifted and sorted and to the NAO took a bit of time. There were two reasons for that. One was that the team keeping the flame was principally focused on managing the litigation which we were facing from shareholders, and, secondly, there was quite a lot of sifting. For example, it was not thought sensible to send the NAO every email we had sent on any subject over the course of that period. Someone had to go through them and that job did take time.

Q51 Mr Bacon: I am glad there was a keeper of the flame. That was to be my next question. Paragraph 4.10 says, "Stakeholders interviewed by us found it difficult to work with the rapid turnover of staff . . .". We are talking about pretty senior staff. "Below Second Permanent Secretary level,", that is you, "the Treasury employed, for example, three different team leaders to deal with Northern rock over the period August 2007 to February 2008 . . .". Could you not have identified the right person and said, "You are in charge until this has settled down"?
Mr Kingman: This was my judgment and I take full responsibility for it. What happened was that on day one, as it were, when I was put in charge, I immediately said, "We need a serious person to run this", and the person I wanted to do it was the person who had managed the British Energy rescue and I brought her back from secondment that day. I knew in doing so that I was only going to have her for two months because she was committed to another job and that was unavoidable.

Q52 Mr Bacon: Another job in the public sector?
Mr Kingman: In the Treasury, and I took the view that it was better to have a person with that experience, even bearing in mind there was going to be some turnover, and I do not think, if you take in the round the performance of the team, that that was seriously impacted by that change. I think it was a reasonable judgment to make.

Q53 Mr Bacon: Can I ask you about arrears because it says in paragraph 3.24 on page 36, under the bullet headed "Understatement of mortgage arrears", that Northern Rock "had capitalised outstanding amounts in arrears following receipt of three consecutive full monthly payments . . .". What that means is it is basically added to the capital assets of the bank or the institution, and ultimately it would obviously have to be repaid but it no longer becomes an arrear, but, ". . . other lenders", it goes on, "did not capitalise arrears until five or six consecutive payments had been received". It is even worse because if you look at the bottom it says, ". . . internal controls over discretion to capitalise amounts in arrears when the borrower had paid less than three monthly payments were inadequate . . .", so my first question is, and this may be one for the NAO; I do not know, were instances found of arrears being capitalised before even three monthly payments had been received?
Mr Gray: These issues were discovered by, I understand, the new management team at Northern Rock following public ownership. They discovered that these were the policies that were being applied by the organisation. We did not have access to Northern Rock and did not and could not judge whether what you have just said was happening.

Q54 Mr Bacon: It comes back to my main question, which is to you, Mr Kingman. Why was this not discovered until after public ownership because not only did it have 125% mortgages, not only did it have six times income, you also had an arrears policy that led to significant understating, and surely when you went in one of the first things you would have done was to say, "Show us your arrears book and show us how you calculate it".
Mr Kingman: I think the crucial thing about this is that this affected the comparative data that the bank submitted to the Council of Mortgage Lenders for the purposes of comparing how Northern Rock looked against other lenders. It did not affect the audited losses of the bank, nor would it have affected in any way the value-for-money calculations that we did in comparing public ownership with the other alternatives.

Q55 Mr Bacon: But it affected the risk. It affected the overall level of risk. If a bigger proportion of the mortgage book is in arrears than you thought that affects the risk.
Mr Kingman: It meant that the relative performance of Northern Rock on arrears compared to other banks looked better than it actually was.

Q56 Mr Bacon: Yes, and you did not know that until you had already signed on the dotted line.
Mr Kingman: Yes, it was the new management of the bank that discovered that. The auditors of the bank had previously missed it and none of the bidders as far as I know had spotted it either.

Q57 Mr Bacon: I am very surprised because it is presumably not that difficult to ask the question, "What are your arrears and, what is more, how do you calculate your arrears, and let us look at the record of your arrears over the last—".
Mr Kingman: It was the last question, "How do you calculate them?" that was flushed out by the new management.

Q58 Mr Williams: Mr Kingman, in the month of March 2008 Northern Rock were expecting losses of £271 million. By the end of the year it was £1.4 billion. That was a five-fold increase in just nine months. How on earth had the management got it that wrong?
Mr Kingman: I think the simple reality is that the economy moved very badly against the bank and affected all mortgage banks and affected Northern Rock in exactly the way you have described.

Q59 Mr Williams: But was it not incompetence on their part?
Mr Kingman: No. The new management of Northern Rock inherited this bank. It was not as if the Government had chosen to invest in this bank because it thought it was a great investment. The Government stepped in for reasons of financial stability and I think the new management of this bank inherited the situation they found.

Q60 Mr Williams: So did you actively dismiss the previous management?
Mr Kingman: Yes.

Q61 Mr Williams: Or did they volunteer to stand down?
Mr Kingman: It was very clear early on that Adam Applegarth was going to have to move on. I think there was a perfectly shared view between us and the board at the time about that. We, as you know, installed a new executive chairman the day that we announced we were taking it into public ownership in the form of Ron Sandler. We also installed a world-class finance director at that time, and I think they were widely and correctly perceived as a strong management team.

Q62 Mr Williams: In view of all the alarm signals that were ringing right from the beginning of this exercise, it really was a panic situation—panic on the street with customers, panic with everyone who could see the repercussions of it, why did you not undertake due diligence?
Mr Kingman: The reason we did not undertake due diligence was that huge amounts of work had been done by a number of people. The FSA had crawled over the books extensively, the Bank had employed Ernst & Young to be going through the books to protect our interests, and in addition all these bidders had been going through the books and doing massive due diligence, and the bidders were hugely incentivised to say, "Look: we have found a problem here", because that would have given them leave to get—

Q63 Mr Williams: But the bidders backed off, did they not?
Mr Kingman: Yes, but by the time they had backed off they had done massive amounts of due diligence, which, incidentally, the taxpayer has had to pay for.

Q64 Mr Williams: And did you have access to their due diligence?
Mr Kingman: They had every reason—

Q65 Mr Williams: Did you have access to it?
Mr Kingman: No, because—

Q66 Mr Williams: You did not? Why not?
Mr Kingman: Because they were bidding for the company.

Q67 Mr Williams: Did you ask?
Mr Kingman: We were in a negotiation with these bidders, so I do not think they would have wanted to share their detailed due diligence with us, but they had every interest in saying, "Look: we have discovered a problem", because that way they could get the price down.

Q68 Mr Williams: So instead you relied on Goldman Sachs?
Mr Kingman: In terms of our intelligence on the assets we relied principally on the work of the FSA as regulator which had been over the books extensively. As I say, Ernst & Young were employed by the Tripartite Authorities, principally the Bank of England, to be protecting our interests as well.

Q69 Mr Williams: But, having not got information from the people who backed out, you then had to do it through an arrangement with someone, Goldman Sachs, who would not tell you how they arrived at their figures?
Mr Kingman: No, that is not correct.

Q70 Mr Williams: It is not correct?
Mr Kingman: It is not correct. The Goldman Sachs model that assessed value for money was gone through. I personally spent a great deal of time testing their assumptions, and indeed I changed a number of their assumptions. It is absolutely true that we did not check their arithmetic. We did not check the actual workings on the spreadsheet, and, to be honest, I did not think it was sensible to employ an investment bank and then for us to be attempting to check their spreadsheets, but we did check their assumptions very carefully.

Q71 Mr Williams: C&AG, did you ask for access to the Goldman Sachs underlying calculations?
Mr Burr: Yes, we did, but Goldman Sachs did not wish to share that with us.

Q72 Mr Williams: In other words, they just said, "No, you can't have it"?, to the National Audit Office?
Mr Burr: Yes.

Q73 Mr Williams: Are you ever going to employ them again if they will not allow—seriously, a major financial organisation in the midst of a crisis of unprecedented magnitude and they will not co-operate with the National Audit Office? They should never be employed again.
Sir Nick Macpherson: When we dealt with Bradford & Bingley we employed a different investment adviser and I think the report says that they were happy to share their model with the Treasury and, by implication, the National Audit Office.

Q74 Mr Williams: Coming back to the activities of Northern Rock and these Together mortgages, these 125%-of-value mortgages, why were they allowed to continue with these?

Mr Kingman: As I said, the number of these mortgages that they sold was brought down very drastically. As I said earlier, they were doing something like 6,000 a month which came down to 500 a month and the credit criteria were tightened several times, the pricing was raised. The thing we were trying to balance here was that on the one hand we were very concerned to protect the taxpayer's interest and we got the bank into a position where it was not a net drain on the taxpayer because it was selling fewer mortgages than it was redeeming. That was very important. On the other hand, we were trying to sell this business as a live business and the bidders were saying that the principal value of this business to them was in the mortgage platform, which they held in high regard, and in the relationships that the bank had with mortgage intermediaries. The bidders were not saying to us, "These Together mortgages are a big joke; they should be stopped at once." What this was about was trying to protect the infrastructure of the business and not to destroy value, but at the same time to get the bank into a position where it was not draining more taxpayers' money.

Q75 Mr Williams: Are they still issuing 125% mortgages?
Mr Kingman: No.

Q76 Mr Williams: When did they stop?
Mr Kingman: That stopped in February when the bank was taken into public ownership.

Q77 Mr Williams: What is the maximum they are allowing now?
Mr Kingman: I do not have that piece of information but it will be below 100%. I do not have the figures.

Q78 Mr Williams: How many multiples of income do they allow?
Mr Kingman: I am afraid I do not know.
Sir Nick Macpherson: We can provide you with information on that.
Mr Williams: Yes, if you would let us have the information.[2]

Q79 Chairman: I wanted to leave this to the end of the session anyway but Mr Bacon has asked about it now. I think that the question he asked you about the National Audit Office oversight of the FSA is now very crucial. People watching this may not understand the basis for Mr Bacon's questioning. The public may think that the National Audit Office can look into any public institution. In fact, there are various institutions they cannot look at, famously the BBC and the Royal Family, but one of them is the FSA. Since 2000 the rule is that you have to request the National Audit Office to look at a particular part of the FSA and you have only ever done that once since 2000, and that was a fairly tangential inquiry. After all, the FSA is primarily concerned about financial stability and protecting the consumer and you have asked the National Audit Office to look at the FSA once in 2000 and that inquiry was not about financial stability and protecting the consumer. That must be a worry now, is it not?
Sir Nick Macpherson: I think we need to look at this. Obviously the FSA is not funded directly by the taxpayer; it is funded by the industry.

Q80 Mr Bacon: Ofwat is not funded by the taxpayer. This argument that because it is not funded by the taxpayer, it is a different purview is rubbish. There are plenty of institutions where the NAO has direct access that are not funded by the taxpayer, so can you give us some serious arguments, please.
Sir Nick Macpherson: I have said, Mr Bacon, that this needs to be looked at afresh. Obviously it would require a ministerial decision and I am an official, but what I am saying to you is that we will look at it afresh, we will ensure that it is considered and ministers take a view on it.

Q81 Chairman: Because we have had very successful inquiries into Ofgem and Postwatch and everything. The point Mr Bacon makes I suppose the initial thinking was—
Sir Nick Macpherson: I am trying to be helpful.
Chairman: —that the FSA was primarily dealing with the private sector. Now we have literally billions of taxpayers' money involved. It seems to us bizarre—and I know that you obviously cannot give the answer yes now—

Q82 Mr Curry: I think Sir Nicholas said that he will prepare a submission for ministers in which the case will be argued and no doubt in Civil Service fashion it will come out later in a recommendation.
Sir Nick Macpherson: I completely agree with you, Mr Curry.

Q83 Chairman: Thank you for assisting the Permanent Secretary. So how will you pursue this matter? Presumably there will now be some discussion and presumably you can at least commit yourselves to discussing this with the NAO and thinking of a way forward. That is not too much to commit yourself to, is it?
Sir Nick Macpherson: I need to go back to the Treasury. The Treasury Officer of Accounts is sitting here. She is well versed in these matters.
Ms Diggle: I will happily advise ministers on this subject, of course taking help and advice from all the other parties concerned.

Q84 Mr Williams: Just as an after thought, I probably missed it, did Goldman Sachs actually have their work treated as a success and, if they did, did they get a bonus for it?
Mr Kingman: They were eligible for a success fee which was at our discretion and we did not pay it.

Q85 Mr Williams: In other words, you share some of my disrespect for them?
Mr Kingman: We agreed with Goldman Sachs that it was not appropriate to pay them a success fee.

[2] Ev 12–13

Mr Williams: They will not be boasting about it, will they? Thank you.

Q86 Chairman: I want to ask you one supplementary, Mr Kingman, for the sake of our Report, about what happened after December 2007. You make a big play of the fact that the volume of Northern Rock's lending was reduced from 1,000 a day to 200 a day by the last quarter of 2007, but that applied to all lending, did it not? It was not focused on shaking off the riskiest lending, was it? That was one of your problems. That is why these 125% mortgages did go on. I agree some of them may have been committed to before September but not all were.
Mr Kingman: It is true that not all were, but it is also true that the pipeline of new lending came down very dramatically. That was true of the riskiest lending and the pricing of the riskiest loans was put up by more than those on the other loans.

Q87 Chairman: According to paragraph 12 of the Report: "At 31 December 2008, Together mortgages represented around 30% of the mortgage book but about 50% of overall arrears and 75% of repossessions." Surely alarm bells must have been ringing at this stage?
Mr Kingman: We were certainly well aware that the Together product was very much at the risky end and therefore one had to be very cautious about it.

Q88 Chairman: Hang on, it goes on to say: "The Treasury judged that mortgage transactions were necessary to maintain the business while a longer term solution was sought." That tells me that you said well, this is their business, they must be allowed to go on making their business, let us let them go on doing it.
Mr Kingman: The management were required to submit a new business plan which completely changed the way the bank was being run, in order to secure public support, but I go back to the point I made to Mr Williams which is that we were trying to strike this very difficult balance at the time between protecting the taxpayer and selling the business. I fully agree that with the benefit of hindsight we would have approached this differently, if we knew then what we know now about the future path of the economy, I think that is perfectly fair, but the world of the autumn 2007 was different from how the world now looks.

Q89 Mr Bacon: Mr Kingman, you are now Chief Executive of one of the most important financial institutions in the country, arguably, because you have got a number of banks or former building societies under your thumb as well as loans and guarantees, you are responsible for bailouts, and so on. Have they changed your terms and conditions accordingly? One might expect you now to have a Ferrari and a Rolex or can we take it that because you are still—you are still Second Permanent Secretary at the Treasury?
Mr Kingman: No, I am not, I am on secondment from the Treasury but I am sorry to say that my terms and conditions have not been changed by one penny.
Mr Bacon: I am very sorry to hear that but I think taxpayers will be very pleased.

Q90 Chairman: Sir Nick and Mr Kingman, that ends what I think has been a very interesting inquiry. Obviously you decided to take this bank into public ownership. I think Mr Williams has asked some very important questions. What worries us is that you may have bought the house without carrying out a good enough survey, which is what we all do in our own lives. You did not carry out your own due diligence. You did not rigorously interrogate the company's forecast of market conditions. You did not question sufficiently the optimistic estimates Northern Rock made about future house prices. In other words, you did not know the full extent of the liabilities and commercial risks to which you had committed us, the taxpayer, which this Committee defends. In your own defence, do you wish to have the last word?
Sir Nick Macpherson: I think my last word would be that in reality we had very few options and what this Report proved conclusively is that the private sector options in the end were not good value, closing Northern Rock down was potentially even worse value, so nationalisation became inevitable. We executed that nationalisation in February 2008 to the highest standards and Northern Rock's initial business plan was dedicated to reducing the mortgage book as quickly as was possible. I conclude by quoting the Comptroller and Auditor General who says: "The Treasury successfully met its objective to protect Northern Rock's depositors and stop the run on the bank. It rightly concluded that the private sector bids for the bank gave insufficient prospect of safeguarding the taxpayer's interest."
Chairman: Thank very much Sir Nick, thank you, Mr Kingman.

Supplementary memorandum from Permanent Secretary, HM Treasury

EVIDENCE TO PUBLIC ACCOUNTS COMMITTEE: MONDAY 30 MARCH 2009

Questions 75–78 (Mr Williams): *on maximum loan to value*

During the hearing I undertook to provide you with information on the maximum loan to value being applied to new lending by Northern Rock. This is currently 85%. I also undertook to give you details of the income multiples Northern Rock are applying. Income multiples are dependent on the customer's credit score and level of income. They currently range from 2.1 for lower earners with a low credit score to 4.5 for

higher earners with a high credit score. The maximum income multiple allowed is 4.5 x single income and 4.2 x joint income. These income multiples are only available on an application where the customer receives a high credit score with the applicant have higher level earning.

Questions 36–40 (Mr Bacon): *whether the Financial Services Authority have been subject to the audit of the National Audit Office in the same way that government departments are?*

I also undertook to consider the remit of the National Audit Office in auditing the Financial Services Authority. I will come back to the Committee on this in due course.

21 April 2009

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