National Audit Office

DEPARTMENTAL OVERVIEW

The performance of HM Treasury 2012-13

SEPTEMBER 2013

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

Contents

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Introduction

Aim and scope of this briefing

1 The primary purpose of this report is to provide the Treasury Select Committee with a summary of HM Treasury's activity and performance since April 2012, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).

2 Part One of the report focuses on the Department's activity over the past year. Part Two concentrates on NAO analyses of that activity. Part Three takes the form of a case study, looking in greater detail at the Treasury's activity to promote investment in infrastructure, a key issue for the Department at the current time.

3 The Comptroller and Auditor General has also published his Report,[1] alongside his opinion on HM Treasury's 2012-13 Departmental Report and Accounts, which provides further commentary on the key balances within the accounts, including developments on the Treasury's financial interventions to maintain financial stability and increase growth in the UK economy.

4 The content of the report has been shared with the Department to ensure that the evidence presented is factually accurate.

1 Comptroller and Auditor General, *HM Treasury Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, HM Treasury, July 2013, Chapter 7.

Part One

About the Department

The Department's responsibilities

1.1 HM Treasury (the Treasury) is the economics and finance ministry for the United Kingdom, responsible for formulating and implementing the UK government's financial and economic policy.

1.2 The latest iteration of the Treasury Business Plan[2] sets out that the Treasury is responsible for implementing the Coalition priorities to promote UK growth by:

- reducing the structural deficit in a fair and responsible way;
- securing a growing economy that is more resilient, and more balanced between public and private sectors; and
- reforming the regulatory framework for the financial sector to avoid future financial crises.

1.3 The responsibilities of the Treasury, as the economics and finance ministry, encompass a range of additional complementary activities including: the design and management of the government's budgetary system; setting standards for financial reporting, management and accountability in the public sector; the development of tax policy (working with HM Revenue & Customs); managing the Exchequer's central funds and foreign exchange reserves; debt management; and publication of the Whole of Government Accounts.

1.4 Since 2008, the Treasury has taken the lead in responding to the financial crisis. The Treasury now has a large balance sheet as a result of the equity investments and loans to financial institutions it made near the start of the crisis.

2 HM Treasury, *Business Plan 2012–2015*, May 2013. Available at: //transparency.number10.gov.uk/business-plan/8/76, accessed 21 August 2013.

How the Department is organised

1.5 The Chancellor of the Exchequer has overall responsibility for the Treasury and chairs the Treasury Board. The Chancellor is supported by a further five Ministers. The Board, whose members include Ministers, also has Executives and Non-Executives, who support and challenge the Ministerial team and the senior officials who run the Treasury. The Board also considers long-term strategy and monitors the Treasury's performance and risk management, and its progress against priorities. The Board is scheduled to meet quarterly, but only met twice in 2012-13.

1.6 Below the Treasury Board there is a Treasury Board (sub-committee) which meets four times a year, six weeks either side of scheduled Treasury Board meetings. This is attended by the Non-Executive Board members and the members of the Executive Management Board (EMB). The EMB itself, along with three risk groups (Economic, Fiscal and Operational) and the Audit Committee further support the Treasury Board in its management of the Treasury.

1.7 The aims and priorities set out by Treasury Ministers are delivered by civil servants (**Figure 1**). The most senior is the Permanent Secretary, Sir Nick Macpherson. The Permanent Secretary is also the Principal Accounting Officer for the HM Treasury Group and so has personal responsibility for the proper presentation of the Department's Annual Report and Accounts.

1.8 The Permanent Secretary is currently principally supported in carrying out his duties by two Second Permanent Secretaries, one taking the lead on the Treasury's finance ministry role and the other on the Treasury's economic role. Five Director Generals act as senior advisers to the Chancellor on five specific policy areas: Public Spending; Financial Services; Economics; Tax and Welfare; and International and EU.

1.9 There are a number of separate bodies, which fall under the responsibility of Treasury Ministers. These include the Core Treasury, the Debt Management Office, arm's-length bodies of the group and further bodies including National Savings & Investments and the new financial regulators. The Bank of England, wholly owned by the Treasury, is also responsible for certain Treasury policies but has operational independence to set monetary policy. A list of the organisations which form the Treasury Group and a description of each is at Appendix One.

Figure 1
How the Department is organised

Executive Management Board

Nick Macpherson – Permanent Secretary

Tom Scholar – Second Permanent Secretary

John Kingman – Second Permanent Secretary

Sharon White – Director General Public Spending

Charles Roxburgh – Director General Financial Services

Dave Ramsden – Director General Chief Economic Adviser

Indra Morris – Director General Tax and Welfare

Alison Cottrell – Director Corporate Services

Kirstin Baker – Director Group Finance

James Bowler – Director Strategy, Planning and Budget

Michael Ellam – Director General International and EU

Director led Groups

Ministerial and Communications

Nick Macpherson, Permanent Secretary
Responsible for decision making, coordination and management of the department, and communications with media and the public

Strategy, Planning and Budget

James Bowler, Director
Responsible for defining forward strategy, work programme, the Budget, and short-term priority policy projects

Economics

Dave Ramsden, Director General
Responsible for UK economic analysis, surveillance, and professionalism

Business and International Tax

Mike Williams, Director
Responsible for business tax, indirect taxes and international tax

Financial Stability

Lowri Khan, Director
Responsible for ongoing stability issues and resolution of financial interventions

Personal Tax, Welfare and Pensions

Beth Russell, Director
Responsible for personal tax, welfare, labour market, and HMRC/DWP expenditure, pensions and savings

Financial Regulations and Markets

Nikhil Rathi, Director
Responsible for the financial services regulatory framework and for financial markets policy issues

International and EU

Peter Curwen, Director (Europe)
Shona Riach, Director (International Finance)
Responsible for advancing the UK's economic and financial interests internationally and in the EU

Financial Services

Alison Cottrell, Director
Responsible for policy with respect to financial services

Corporate Centre

Kirstin Baker, Group Finance Director
Alison Cottrell, Director Corporate Services
Enabling the Treasury to deliver by managing and developing corporate policies and processes including: correspondence and public enquiries, HR, estates, IT, domestic finances and commercial activities, as well as the implementation of departmental change programmes

Enterprise and Growth

Jeremy Pocklington, Director Enterprise and Growth
Geoffrey Spence, Chief Executive, Infrastructure UK
Responsible for growth-related policy and expenditure including: infrastructure strategy and delivery, and public private partnerships (PPP)

Fiscal

James Richardson, Director
Responsible for fiscal strategy, funding and debt management, and monitoring fiscal position

Treasury Legal Advisers

Stephen Parker, Director
Responsible for provision of advisory and other legal services across the Treasury and certain other agencies and departments

Public Spending

Julian Kelly, Director
Responsible for public spending control and embedding good governance and financial management across government

Public Services

Tamara Finkelstein and Lindsey Fussell, Directors
Responsible for oversight of major public service expenditure

Source: HM Treasury, Annual Report and Accounts 2012-13, Chapter 1

Where the Department spends its money

1.10 Spending by the Treasury has fundamentally changed due to the financial crisis. In taking the lead in the response to the financial crisis the majority of the Treasury's finances relate to support for financial institutions. At its peak, this support totalled over £1 trillion.[3] It has reduced significantly from this peak to £140 billion at 31 March 2013, largely due to the closure of the Credit Guarantee Scheme (CGS) and the Asset Protection Scheme (APS). The Comptroller and Auditor General's (C&AG's) Report on HM Treasury's Annual Report and Accounts 2012-13[4] provides more detail on taxpayer's support to the banks.

1.11 Despite the significant reduction in banking support the size of the Treasury's Group Statement of Financial Position continued to grow, with total assets reaching £144 billion at 31 March 2013,[5] an increase of £5 billion on the previous year. The main driver of this increase was the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative. This derivative indemnifies the Bank of England's Quantitative Easing (QE) programme against losses, and it will also in time receive any profits that the Bank generates through QE. In 2012-13, a revision to the indemnity meant that excess cash could be transferred between the BEAPFF and the Treasury, and £11.3 billion was transferred to the Treasury in the same year. Were there to be a deficit of cash in any quarter in future then cash could be transferred in the opposite direction. Part 3 of the C&AG's Report[6] provides further detail on QE.

1.12 **Figure 2** demonstrates how the Treasury's assets have grown since the 2007 crisis. The most significant Treasury actions that brought about the large asset balance were:

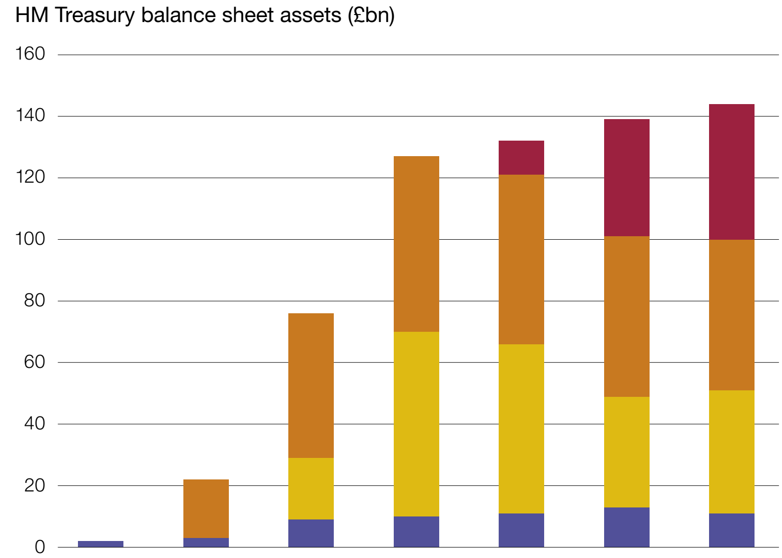
- the nationalisation of Northern Rock in 2007-08 and Bradford & Bingley in 2008-09, which led to a large loan and working capital facility being provided to these institutions respectively;
- the acquisition of Lloyds Banking Group and Royal Bank of Scotland shares in 2008-09 and 2009-10; and
- the previously mentioned provision of an indemnity to the QE programme from 2010-11 onwards.

1.13 For 2012-13, the Department's net outturn was a negative £22.5 billion,[7] indicating that the Treasury was a net contributor to the Exchequer. The Treasury paid over £18.4 billion of cash to the Exchequer in 2012-13, including the £11.3 billion received from the BEAPFF and £4.7 billion relating to loan repayments. Total group expenditure was £929 million for 2012-13 (**Figure 3** on page 10). The costs of the Treasury's role as the economics and finance ministry continue to be dwarfed by the resources it has invested in financial interventions.

3 Comptroller and Auditor General, *HM Treasury Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, HM Treasury, July 2013, Chapter 7.
4 See footnote 3.
5 HM Treasury, *Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, July 2013, Chapter 8.
6 See footnote 3.
7 See footnote 5.

Figure 2

The Department's balance sheet assets from 2006-07 to 2012-13



	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Asset Purchase Facility	0	0	0	0	11	38	44
Loans to NRAM, B&B	0	19	47	57	55	52	49
Shares in RBS/LBG	0	0	20	60	55	36	40
Other assets	2	3	9	10	11	13	11

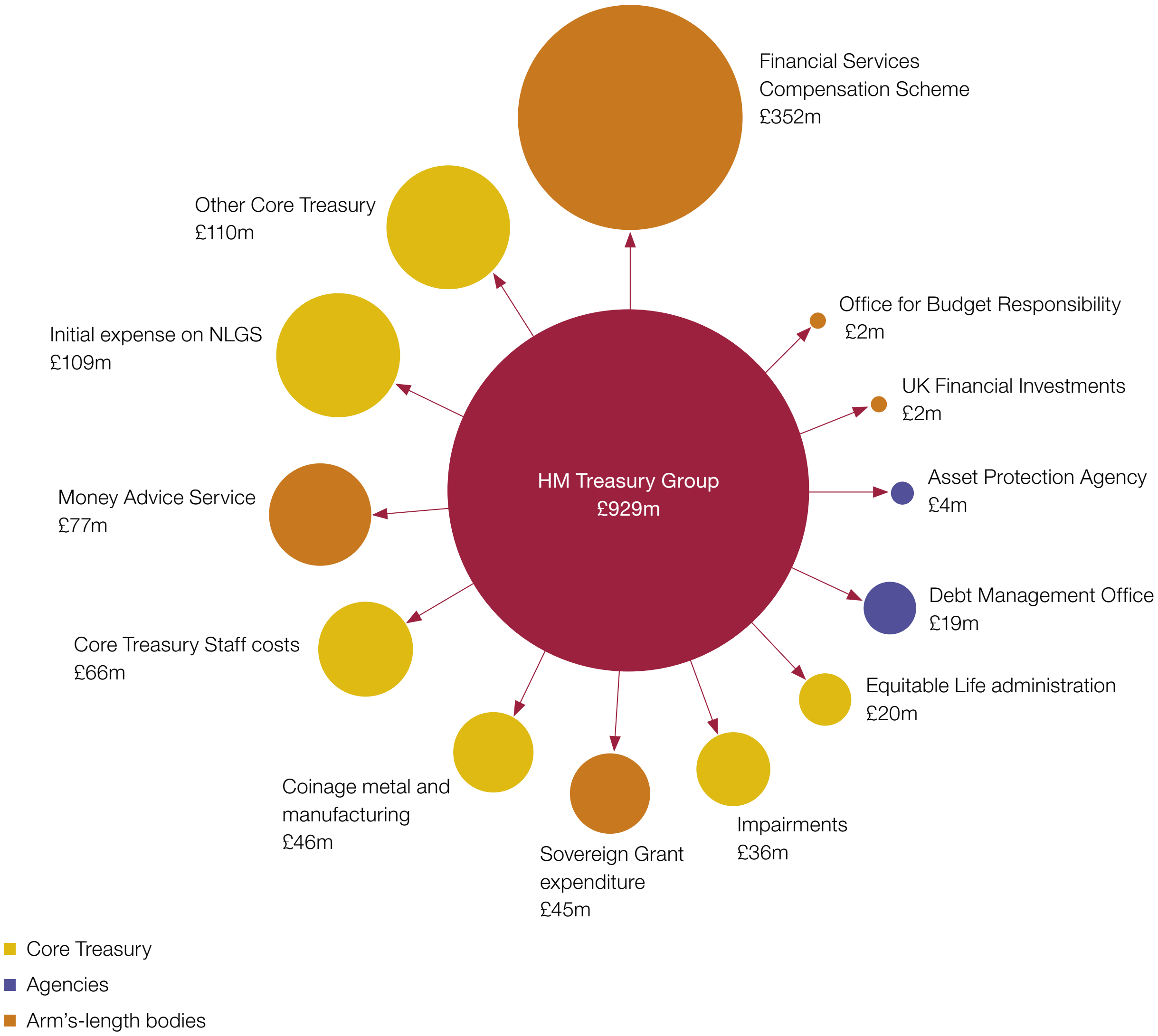
Source: The Comptroller and Auditor General's Report on HM Treasury's Annual Report and Accounts 2012-13

1.14 A final element of Treasury expenditure is the Equitable Life Payment Scheme. Payments of £409 million were made from this scheme in 2012-13 (2011-12: £168 million). At the same time, an extension to the scheme, announced in the 2013 Budget,[8] will see further ex-gratia payments made in the future, increasing the size of the Treasury's provision by £45 million. The NAO published a report on the administration of the Equitable Life Payment Scheme in April 2013,[9] and more detail on this is provided in Part Two.

8 HM Treasury, *Budget 2013*, HC 1033, March 2013, paragraph 1.197.

9 Comptroller and Auditor General, *Administering the Equitable Life Payment Scheme*, Session 2012-13, HC 1043, National Audit Office, April 2013.

Figure 3
Gross Departmental Expenditure in 2012-13



Notes

1 This analysis is gross resource expenditure only. It excludes capital expenditure and income.

2 The above figures exclude transactions between entities within the Treasury Group.

3 Other Core Treasury costs mainly comprises expenditure on accommodation, office services, consultancy and banking and Gilt registration services.

4 Further detail on the bodies within the Treasury Group can be seen in Appendix One.

5 The initial National Loan Guarantee Scheme (NLGS) expense of £109 million is an accounting expense recognised in 2012-13 representing the difference between the expected loss on the scheme and the expected fees to be received. This expense, should no pay-out by Treasury be made on any NLGS guarantee, will be credited back as income across the life of the guarantees. This new scheme is outlined in paragraph 1.24.

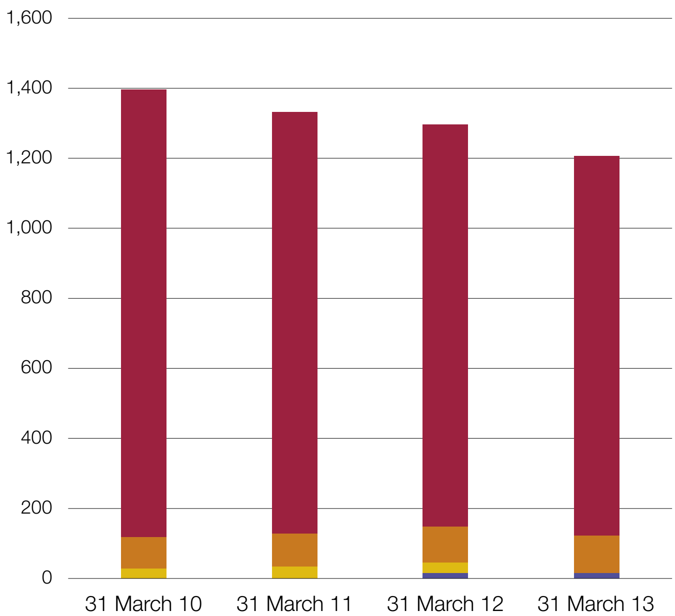
Source: HM Treasury Annual Report and Accounts 2012-13

Recent and planned changes to the Department's spending

1.15 The 2010 Spending Review[10] proposed average cuts of 19 per cent across Departmental Expenditure Limits (DEL). The Treasury itself was given a 33 per cent budget cut, and a 25 per cent reduction in headcount over the period of the review. The 2012 Autumn Statement[11] announced a further 1 per cent reduction in 2013-14 spending and 2 per cent for 2014-15. By 31 March 2013, the Core Treasury had reduced its headcount to 1,084 and it expects to achieve its target by April 2014.[12] The headcount reductions over the past four years are shown in **Figure 4**.

Figure 4

Permanent staff numbers within HM Treasury Group since 31 March 2010



	31 March 10	31 March 11	31 March 12	31 March 13
Core Treasury	1,278	1,204	1,148	1,084
Debt Management Office	90	93	104	106
Asset Protection Agency	29	35	29	0
Office for Budget Responsibility	0	0	16	16

Source: Treasury Annual Report 2012-13 and 2011-12

10 HM Treasury, *Spending Review 2010*, Cm 7942, October 2010. Available at: www.gov.uk/government/publications/spending-review-2010, accessed 22 August 2013.

11 HM Treasury, *Autumn Statement 2012*, Cm 8480, December 2012. Available at: www.gov.uk/government/publications/autumn-statement-2012-documents, accessed 22 August 2013.

12 HM Treasury, *Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, July 2013, Chapter 1.

1.16 In June 2013, the Chancellor announced spending plans for 2015-16. Overall, the headline figure was a further £11.5 billion cut to government spending.[13] The announcement included a 10 per cent reduction in the Resource DEL budget of the Treasury. The Treasury intends to make this cut by maximising sources of revenue, including rental income from sharing accommodation, through flexible working, and by sharing IT provision and some corporate services with other departments.

1.17 In 2012-13, the Treasury received fine income collected by the Financial Services Authority for the first time. This is because the Financial Services Act 2012[14] included a provision for all finance services fines, net of enforcement costs, to be paid to the Treasury; it then transfers the fines to the Consolidated Fund. Total fine income payable in 2012-13 was £342 million, largely due to the fines imposed in respect of LIBOR rigging. LIBOR is the average interest rate that leading banks in London are charged to borrow from other banks. The fines were issued to banks that deliberately submitted incorrect rates of interest to the LIBOR setters.

1.18 The Treasury's overall DEL outturn for the previous five years and its budget for the next two years are shown in **Figure 5**; the negative figure for 2012-13 was due to fine income. The future years do not include an estimate of fine income since the level of such income is unknowable.

1.19 A final significant change to Treasury spending came about through the Sovereign Grant Act 2011,[15] which changed the method of funding The Queen's official duties. From 1 April 2012, the Treasury became responsible for making the Sovereign Grant, which replaced the Civil List and Grants-in-Aid made by the Department for Culture Media & Sport and the Department for Transport. The value of the Sovereign Grant was £31 million in 2012-13 and it will be set annually from this point onwards, outside the control of the Treasury, on a formula based on the net surplus generated by the Crown Estate.

Policy and delivery: major developments in 2012-13

Financial interventions

1.20 Financial interventions in the UK economy, and in particular in the banking sector, remain the Treasury's principal policy focus. The Comptroller and Auditor General's Report,[16] published alongside the Treasury's 2012-13 Departmental Accounts, discusses many of the financial interventions that the Treasury has made.

1.21 **Figure 6** on page 14 provides a timeline of the financial interventions the Treasury has made since the start of the 2007 financial crisis. This shows that some original interventions have ended while others, such as the investments in Lloyds and the Royal Bank of Scotland (RBS) and the loans to financial institutions, are ongoing. The figure also shows the recent introduction of a number of growth schemes.

13 HM Treasury, *Spending Round 2013*, Cm 8639, June 2013. Available at: www.gov.uk/government/publications/spending-round-2013-documents, accessed 22 August 2013.
14 Section 109, *Financial Services Act 2012*.
15 Section 1, *Sovereign Grant Act 2011*.
16 Comptroller and Auditor General, *HM Treasury Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, HM Treasury, July 2013, Chapter 7.

Figure 5

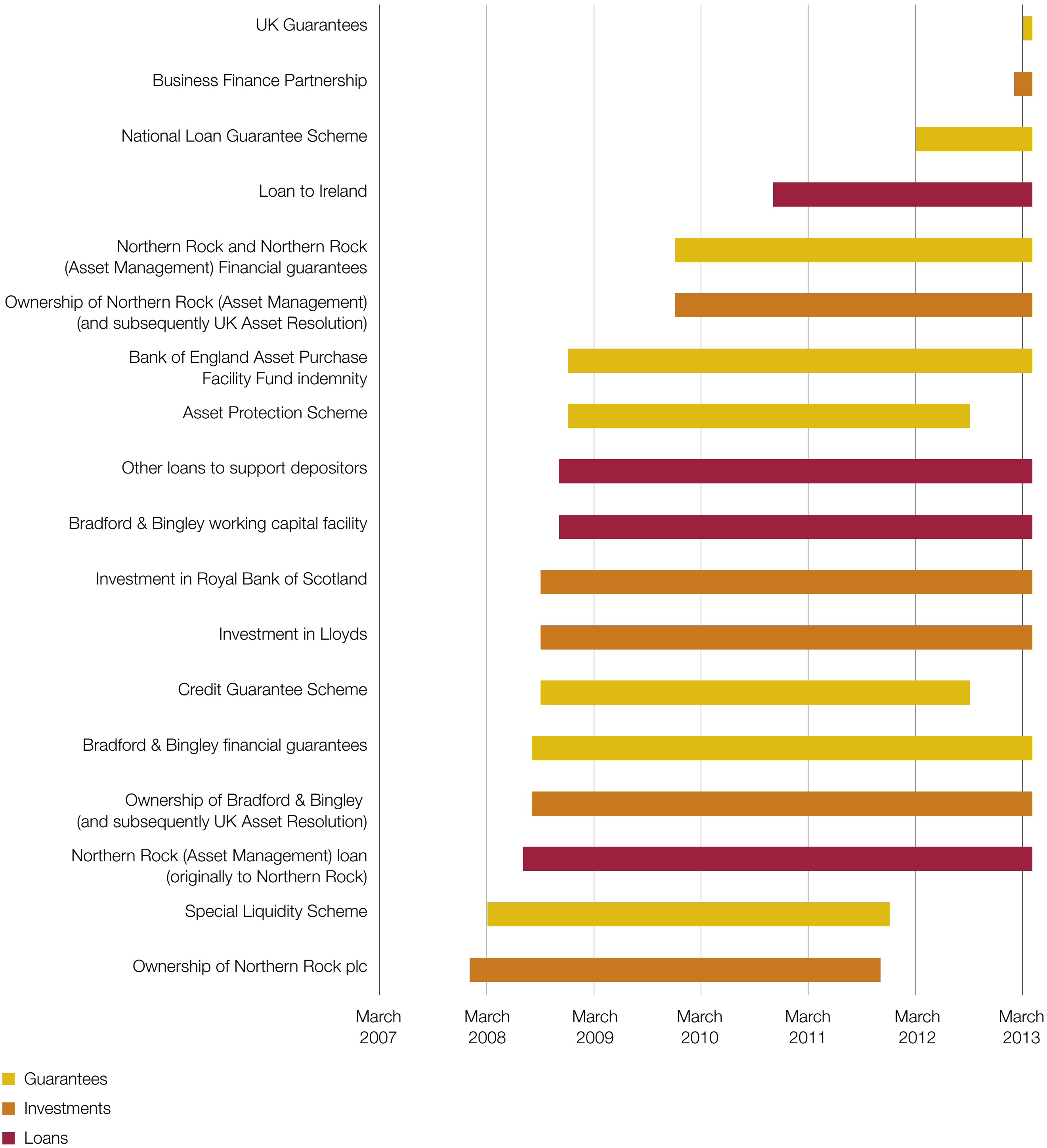
Outturn and budget for Treasury Departmental Expenditure Limits

	Outturn					Budget	
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Core Treasury	125	142	126	117	-227	125	108
Coinage manufacturing	15	13	13	14	20	14	13
Debt Management Office	13	16	15	12	16	14	13
Asset Protection Agency	0	0	0	-1	1	0	0
Office for Budget Responsibility	0	0	0	2	2	2	2
UK Financial Investments Ltd	0	4	3	5	2	3	3
Non-voted: Banking and Gilts registration	11	12	11	11	11	12	11

Source: Treasury Annual Report 2012-13, chapter 3

Figure 6

A timeline of the Treasury's stability and growth interventions as a result of the 2007 financial crisis



Source: National Audit Office analysis

Closing schemes

1.22 The APS ended in October 2012. It was designed to provide participants with insurance against future losses above specified thresholds on defined portfolios of assets. The scheme's aim was to increase banks' regulatory capital by limiting their exposure to potential losses. At its peak, it had provided support worth £457 billion, all of which was a contingent liability for the Treasury,[17] though none of which was realised. When it closed, only RBS was still participating in the scheme. It was agreed that RBS could exit, because its circumstances had changed and it was no longer deriving any material benefit from being a member.

1.23 The CGS also ended in October 2012, when the final debt that had been guaranteed by it matured. Under the scheme, the taxpayer had provided guarantees for debt issues by UK banks in exchange for a fee. If a bank were to default on the scheme then the Treasury would have had to reimburse the holder of the debt. At the peak of this scheme the maximum exposure for the taxpayer was £250 billion, though no pay-outs had to be made.

New schemes

1.24 The Treasury's initial financial interventions were emergency measures to maintain financial stability in the UK. Those introduced more recently have been focused on increasing growth in the economy. The following schemes commenced in 2012-13 and more detail on each can be found in Part Three of our Report:[18]

- The National Loan Guarantee Scheme (NLGS): This was launched to provide businesses with up to £20 billion of cheap loans, by providing guarantees on unsecured borrowing by the banks. Just £2.9 billion of debt was guaranteed in 2012-13, despite the scheme expanding in-year to cover businesses with turnover of up to £250 million. Falls in the cost of secured wholesale borrowing by banks and the launch of the Funding for Lending scheme means that it is unlikely that any further guarantees will be granted.

- Funding for Lending Scheme (FLS): The Bank of England introduced the FLS in August 2012 to increase lending in the UK. In exchange for a fee, banks and building societies are able to exchange assets on their balance sheet for Treasury Bills, which can then be used to borrow cash. There is no overall limit to the funding available under the scheme.

- The Business Finance Partnership Scheme (BFP): Announced in the 2011 Autumn Statement,[19] the BFP aims to co-invest £1.1 billion of taxpayers' money, matched by at least equal private sector capital, in small- and mid-sized businesses in the UK. The scheme appointed its first fund managers in 2012-13, though just £5 million had been invested by 31 March 2013. The Scheme is expected to expand significantly in 2013-14, with five fund managers selected to invest the first main tranche of funding totalling £700 million.

17 Comptroller and Auditor General, *HM Treasury Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, HM Treasury, July 2013, Chapter 7.
18 See footnote 17.
19 HM Treasury, *Autumn Statement 2011*, Cm 8231, November 2011.

1.25 In December 2010, the government agreed to provide a loan of £3.2 billion to the Irish government as part of an international package of financial assistance for Ireland. During 2012-13, Ireland drew down a further £1.2 billion against its £3.2 billion facility, bringing the total loan balance to £2.4 billion. A further instalment of £0.4 billion was made in June 2013 and the final tranche of £0.4 billion will be drawn down as soon as is practicable following the end of the next reporting period, which ends on 30 September 2013.

Overall financial exposure

1.26 The Treasury's exposure to financial losses as a result of these interventions has reduced significantly as shown in **Figure 7**, largely due to the closure of the APS and CGS. Exposure due to guarantees is likely to increase in 2013-14, however, as a result of significant new schemes to issue guarantees for infrastructure projects and mortgages (discussed later in Part One). Figure 7 also shows how the cash outlay on interventions has reduced only slightly following loan repayments in year.

Financial services regulation

1.27 The Financial Services Act 2012 came into effect on 1 April 2013 with the aim of strengthening the financial regulatory structure in the UK. As a result, the Financial Services Authority no longer exists in its previous form. Instead, the new legislation:

- established the Financial Policy Committee within the Bank of England, to monitor and respond to systemic risks;
- clarified responsibilities between the Treasury and the Bank in the event of a financial crisis;
- placed responsibility for significant prudential regulation with the new Prudential Regulation Authority (a subsidiary of the Bank); and
- created a new regulator for business conduct, the Financial Conduct Authority.

1.28 The Act provides for more direct accountability to Parliament than previously, including, from 1 April 2013, the appointment of the C&AG as the auditor of the Prudential Regulation Authority and the Financial Conduct Authority. The Act also appointed the C&AG as the auditor of the existing financial services regulators: the Financial Services Compensation Scheme, the Financial Ombudsman Service and the Money Advice Service.

Figure 7
The scale of the Treasury's outstanding guarantees and cash outlay on financial interventions (£bn)

	31 March 2010	31 March 2011	31 March 2012	31 March 2013
Guarantees	486	332	123	25
Cash outlay	126	124	119	115

Notes
1 Guarantees line represents the Treasury's exposure should it be obliged to pay out on all guarantees.
2 Cash outlay represents cash invested in and loans made to financial institutions.

Source: The Comptroller and Auditor General's Report on HM Treasury's Annual Report and Accounts 2012-13 Chapter 7

Independent Commission on Banking

1.29 In June 2010, the Chancellor announced the creation of the Independent Commission on Banking. The Commission was asked to consider structural and related non-structural reforms to the UK banking sector in order to promote financial stability and competition. It published its final report in September 2011, setting out that UK banks individually needed greater capital as well as better capacity to absorb losses, and that the sector as a whole required structural reform.[20]

20 Independent Commission on Banking, *Final Report*, September 2011.

1.30 The government responded with a White Paper in June 2012.[21] This outlined the need to make banks more resilient to future shocks and structurally less complex so that, should they fail, their failure does not threaten the provision of essential services to the economy as a whole. The Government agreed with the Commission that a robust ring fence between retail and investment banking was vital, in order to reduce complexity and to make banking problems easier to solve in a crisis. It also agreed that banks needed sufficient reserves to absorb losses. The government drafted the Financial Services (Banking Reform) Bill, which was introduced into the House of Commons in February 2013. The Bill will make many of the Commission's recommendations into law. It had its second reading in the House of Lords on 24 July 2013.

Parliamentary Commission on Banking Standards

1.31 A Parliamentary Commission on Banking Standards was established in July 2012 to consider and report on the professional standards and culture of the banking sector and lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and for Government policy. The Commission's final report,[22] published in June 2013, made a wide range of recommendations, including changes to the way that senior bankers are remunerated, vetted and sanctioned for misconduct.

1.32 In response to the final report, the Chancellor of the Exchequer announced on 19 June 2013 that the Treasury will introduce amendments to the Financial Services (Banking Reform) Bill to take into account the Commission's recommendations.

The Department's digital strategy

1.33 By December 2012, each government department was required to produce a digital strategy,[23] an indication of the central part that digital communications now play in government business.

1.34 Many of the actions detailed in the cross-government digital strategy are not applicable to the Treasury as it is not a transactional department (one that engages in business of a transactional nature with citizens) and does not offer online services. For example, for transactional departments there was a requirement to identify exemplary digital projects that others could learn from. The Treasury Digital Strategy[24] is therefore focused on communications.

21 HM Treasury, *Banking reform: delivering stability and supporting a sustainable economy*, Cm 8356, June 2012. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/32556/whitepaper_banking_reform_140512.pdf, accessed 22 August 2013.

22 Report of the Parliamentary Commission on Banking Standards, *Changing banking for good*, Session 2013-14, HC 175, June 2013.

23 Cabinet Office, *Government Digital Strategy*, November 2012. Available at: publications.cabinetoffice.gov.uk/digital/strategy/, accessed 22 August 2013.

24 HM Treasury, *HM Treasury Digital Strategy*, December 2012. Available at: www.gov.uk/government/publications/hm-treasury-digital-strategy, accessed 22 August 2013.

1.35 There are two central strands to the Treasury's version of adopting what is known as a 'digital by default' approach in future: these are to inform and to engage.

- The Treasury will seek to **inform** its audiences about the government's work through a wider number of channels than previously, including by making its communications model more digitally-focused.
- The Treasury will seek to **engage** audiences more in future by making more use of digital means of communication in its policy-making processes.

1.36 The Treasury has a dedicated Head of Digital Communications and has also identified a departmental Digital Leader, who is also Head of Communications. As part of a wider initiative, the Treasury closed its standalone website in March 2013 and moved its content onto the gov.uk domain with the aim of being more focused on the needs of its key audiences. The websites of the Treasury's arm's-length bodies (other than those granted a specific business-based exemption) will move to gov.uk in early 2014.

Staff attitudes

1.37 The government has conducted its Civil Service People Survey annually for the past four years. The most recent survey was carried out during October 2012, with detailed results available from February 2013.[25] Continuing our practice in past briefings, we summarise here the views of the Department's staff on a number of key issues, and compare them to benchmarks for the civil service as a whole.

1.38 The Treasury's results for 2012 are positive in many areas and a response rate of 89 per cent provides a high level of confidence in their validity. As part of the annual survey, each Department receives an engagement index, assessing the level of staff engagement determined by the extent to which: staff speak positively of the organisation; are emotionally attached and committed to it; and are motivated to do the best for it.

1.39 **Figure 8** overleaf shows a summary of some of the results of the survey. The Treasury's staff engagement level of 66 per cent has increased slightly since last year and is 8 per cent higher than the Civil Service average. The combined leadership and managing change scores are 4 per cent more positive this year than last, and 14 per cent higher than the Civil Service average; and, at 82 per cent, the extent to which staff understand organisational objectives and purpose remain in line with the Civil Service average. Conversely, on pay and benefits, Treasury staff's appraisal remained at 18 per cent, 12 per cent below the Civil Service average.

1.40 Treasury staff's responses to a range of more detailed questions can be seen in Appendix Two, alongside responses for other government departments.

25 Cabinet Office, *Civil Service People Survey 2012*, February 2013.

Figure 8
Civil Service People Survey

	2012 Survey	2011 Survey	Civil Service 2012
Engagement Index	66	65	58
Theme Scores (%)			
Leadership and Managing Change	55	51	41
Organisational objectives and purpose	82	82	82
Resources and workload	73	71	74
Pay and benefits	18	18	30

Note
1 These scores represent the average score for the questions asked for each theme category.

Source: Civil Service People Survey

Major developments for the year ahead

Sale of HM Treasury investment in banks

1.41 In his June 2013 Mansion House speech,[26] the Chancellor announced that options for the sale of Lloyds shares were actively being considered as it had become possible to begin returning the bank to the private sector. He did not set a timetable for such a move, but stated that any initial sale would be an institutional placement, as this was likely to be the most effective way of managing risk and maximising value. An institutional placement means one where shares are offered to a small number of large institutional investors rather than sold through a public offering.

1.42 Currently, no similar sale of RBS shares is expected and the Chancellor confirmed at the Mansion House that the Treasury will only begin selling its stake in RBS when the bank is fully able to support the economy and provide value for money. It is generally accepted that this is not likely to be the case in the near future. And the Chancellor further announced that the Treasury will now urgently investigate the possibility of splitting RBS into two banks, one 'good' and one 'bad', following the final report of the Parliamentary Commission on Banking Standards in June 2013.

26 HM Treasury, Speech by Chancellor of the Exchequer, RT Hon George Osborne MP, Mansion House 2013, June 2013. Available at: www.gov.uk/government/speeches/speech-by-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-mansion-house-2013, accessed 22 August 2013.

UK Guarantees

1.43 The Scheme, announced in July 2012[27] aims to help avoid delays to investment in UK infrastructure projects that may have stalled because of adverse credit conditions. The Scheme, which will issue up to £40 billion of guarantees in aggregate, is considered in more detail in Part Three.

Help to Buy

1.44 Increased deposit requirements and falling equity values in recent years have left many unable to get onto the housing ladder or move home. For these reasons the Treasury announced the Help to Buy scheme in the March 2013 Budget[28] which will, from January 2014, provide guarantees to up to £130 billion of mortgages to enable people to obtain mortgages, without the need for a large deposit. Further details were announced in July 2013[29] including that borrowers must be able to afford a mortgage and will be subject to income verification and stress testing. This also confirmed the scheme excludes second homes and cannot be used in conjunction with any other government scheme.

Accounting changes

1.45 The Treasury currently owns all of the share capital of UK Asset Resolution Ltd (UKAR). UKAR is the body which owns Northern Rock (Asset Management) and Bradford & Bingley. The Treasury's 2013-14 financial statements are expected to consolidate UKAR, subject to UKAR being included in the list of designated bodies for 2013-14. If this happens, it will have a significant impact on the Treasury's financial statements and will present the Treasury with the challenge of consolidating a bank for the first time.

27 HM Treasury, *Press release*, 18 July 2012, available at: www.gov.uk/government/news/chancellor-announces-uk-guarantees-scheme, accessed 22 August 2013.
28 *Budget 2013*, HM Treasury, Session 2013-14, HC 1033, March 2013.
29 HM Treasury, *Press release*, 23 July 2013. Available at: www.gov.uk/government/news/help-to-buy-mortgage-guarantee-scheme-details-set-out-by-chancellor, accessed 22 August 2013.

Part Two

Recent NAO work on the Department

Our audit of the Department's accounts

2.1 The NAO's financial audits of government departments and associated bodies are primarily conducted to allow the Comptroller and Auditor General (C&AG) to form an opinion of the truth and fairness of the public accounts. In the course of these audits, the NAO learns a great deal about government bodies' financial management and sometimes this leads to further targeted pieces of work which examine particular issues. In this section, we look at the outcome of our most recent financial audit on the Treasury and its bodies.

2.2 The Treasury's accounts were certified by the C&AG on 12 July 2013 with an unqualified audit opinion. We published a Report,[30] alongside the opinion, setting out the support provided to maintain financial stability and to the wider economy. None of the 2012-13 financial statements produced by the Treasury 'family' received qualified audit opinions.

2.3 As part of our audits, we work with the Department and its sponsored bodies to improve the quality and transparency of published Governance Statements. We aim to ensure that the processes by which Statements are produced are robust and that the Statements comply with Treasury's guidance. The Treasury's Governance Statement for 2012-13[31] sets out the corporate governance mechanisms and structures that it has to help it identify and mitigate risks. It includes detail on risks to the wider group of Treasury bodies, including the accountability arrangements in place for the Financial Services Compensation Scheme, the Money Advice Service and the Sovereign Grant. The key challenges identified for 2012-13 were:

- continued uncertainty in the global economy, problems in the Eurozone and a sustained period of subdued growth, all of which might make the Department's objectives to reduce the deficit, rebalance the economy and restore stability even more demanding;
- delivery of responsibilities as a finance and economics ministry, at the same time as implementing its own spending review settlement and managing the headcount reductions this settlement requires; and
- stimulating the economy and delivering supply-side growth.

30 Comptroller and Auditor General, *HM Treasury Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, HM Treasury, July 2013, Chapter 7.
31 HM Treasury, *Annual Report and Accounts 2012-13*, Session 2013-14, HC 34, July 2013, Chapter 3.

Reports on the Whole of Government Accounts 2010-11 and 2011-12

2.4 The NAO's reports on the Whole of Government Accounts (WGA) for 2010-11[32] and 2011-12[33] were produced within nine months of each other. These highlighted the key areas of interest in the WGA and made broader observations to aid users in interpreting it. The key elements of the WGA 2011-12 can be seen in **Figure 9**.

Figure 9
Key elements of the Whole of Government Accounts 2011-12

	Description	Examples	2009-10	2010-11	2011-12
Assets	Resources controlled by government from which future benefits can be generated	Offices, student loans, the national road network, military equipment	1,249.5	1,234.3	1,267.6
Liabilities	Obligations on government arising from past transactions or events	Unfunded elements of public sector pension schemes, gilt-edged stock, future cost of decommissioning existing nuclear facilities	(2,477.4)	(2,420.0)	(2,614.6)
Net liability	**The difference between what the public sector owned and what it owed at the end of the financial year**		**(1,227.9)**	**(1,185.7)**	**(1,347.0)**
Revenue	Income received from government activities	Taxation, rental from local government housing, funding received from the EU	583.4	614.0	616.6
Direct expenditure	The costs of running government and providing public services	Benefit payments, staff costs, grants, depreciation, contributions to the EU	(619.5)	(663.3)	(647.8)
Other operating expenditure	Items subject to revaluations based on external factors	Pension scheme costs and impairment of assets	(47.7)	38.4	(67.3)
Net financing cost	The cost of funding government's activities	Investment revenue, interest paid on gilts, interest on pension scheme liabilities	(78.9)	(83.5)	(86.8)
WGA net expenditure for the year	**The difference between all the public sector's expenditure and its income (WGA Deficit)**		**(162.7)**	**(94.4)**	**(185.3)**

Notes

1 All figures in £ billions.

2 The balance sheet figures for 2010-11 have been restated so that they are comparable with the 2011-12 WGA. This reduced the net liability by £7.7 billion.

3 The figures for 2009-10 were restated last year to make them comparable with the original figures for 2010-11 but have not been further restated for comparability with 2011-12.

4 This reduced net expenditure for the year by £1.8 billion and increased the net liability £16.1 billion.

Source: National Audit Office analysis of WGA 2011-12 and 2010-11

32 Comptroller and Auditor General, *Whole of Government Accounts 2010-11*, Session 2012-13, HC 687, HM Treasury, October 2012, Chapter 7.

33 Comptroller and Auditor General, *Whole of Government Accounts 2011-12*, Session 2013-14, HC 531, HM Treasury, July 2013, Chapter 8.

2.5 As in previous years, the C&AG's opinion on the 2011-12 WGA was qualified in certain aspects. The audit revealed significant issues with the quality and consistency of the data included in the WGA and noted that some bodies, such as Network Rail, remain excluded from the WGA even though accounting standards require their inclusion.

2.6 The Treasury again brought forward its publication of the WGA for 2011-12, but, for it to be used more effectively in future, it needs to be produced faster still. The 2011-12 WGA was published some 16 months after the financial year to which it relates.

2.7 More generally, the Treasury accepted recommendations made in a Public Accounts Committee's report on the 2010-11 WGA[34] that it should develop a plan to turn the accounts into a more meaningful document that helps shape the management, direction and reporting of public finances and that the Treasury should consider the opportunities the WGA presents to improve financial management in government. The PAC also recommended that the Treasury formulate a clear plan for how it will use the WGA to assist its management of public finances in future. Our report on the 2011-12 WGA made further recommendations on improving data collection so that information in the WGA can go beyond accounting standards and become more detailed and be of greater use to its readers.

Our audits of the Department's effectiveness and value for money

2.8 The NAO's work to test the effectiveness and value for money of government spending in 2012-13 included a number of projects which focused on the Treasury. The principal findings of these, and in some cases the actions that have been taken since, are summarised below. The NAO's report on *Planning for economic infrastructure*[35] is discussed separately in Part Three.

Equitable Life Payment Scheme

2.9 The Equitable Life Payment Scheme was set up by the government in 2011 to provide ex-gratia payments to policyholders of the Equitable Life Assurance Society (ELAS). The Treasury was given powers to make voluntary payments to just over a million policyholders, who bought policies between September 1992 and December 2000. The 2010 Spending Review put a cap of £1.5 billion on these payments.

2.10 The NAO report, *Administering the Equitable Life Payment Scheme*,[36] looked at the implementation of the Scheme to date by the Treasury and National Savings and Investments (NS&I) (which operates the scheme), and at whether the government would meet its targets.

34 HC Committee of Public Accounts, *Whole of Government Accounts 2010-11*, Thirty-seventh Report of Session 2012-13, HC 867, April 2013.

35 Comptroller and Auditor General, *Planning for economic infrastructure*, Session 2012-13, HC 595, National Audit Office, January 2013.

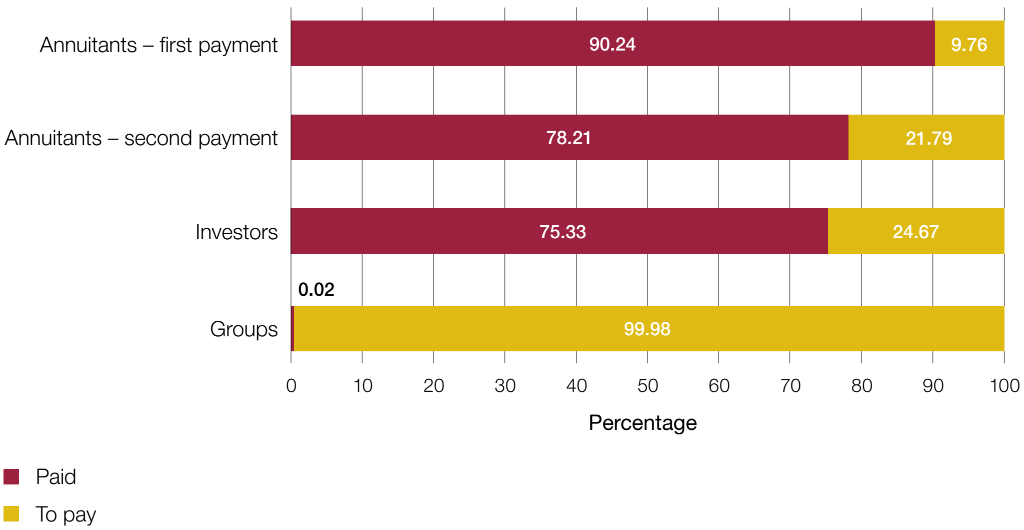
36 Comptroller and Auditor General, *Administering the Equitable Life Payment Scheme*, Session 2012-13, HC 1043, National Audit Office, April 2013.

2.11 The government's aim of making the first payment by June 2011 was met, but the PAC considered[37] that this was at the expense of not planning properly for how the Scheme would be administered and meant that there was no time to run a pilot. Further payments to policyholders were then delayed against the original plan. In the initial plan, £500 million should have been paid out by the end of 2011-12. However, only £168 million was paid out by this date. By the end of March 2013, the Scheme had made 407,000 payments, totalling more than £577 million. **Figure 10** shows that, as at the end of March 2013, 22 per cent of investors were still awaiting payments and 10 per cent of annuitants were yet to receive their first payment. We also found that the data ELAS provided on the identity of policyholders was incomplete or, in some cases, out of date and as a result, we concluded that achieving the Scheme's objective to pay all policyholders, who can be traced, by the end of March 2014 was at risk.

Figure 10

Payment progress by different types of policy as at 31 March 2013

Progress has been made in paying annuitants and investors, however little has been made in paying members of Group schemes



Notes

1. Figures of payment volumes from Payment Plan dated 31 March 2013.
2. Groups schemes, includes both Defined Contribution and Defined Benefit groups. All DB groups have received payments, however the number of these schemes is very small.
3. This figure does not include contacts to policyholders who are not due a payment as they made a relative gain or as their relative loss was below the £10 minimum payment amount.

Source: National Savings and Investments Payment Profile

37 HC Committee of Public Accounts, *Administering the Equitable Life Payments Scheme*, Seventeenth Report of Session 2013-14, HC 111, July 2013.

HM Treasury Data Assurance 2012-13

2.12 The NAO recently reviewed[38] the three new business plan impact indicators in the Treasury's 2012-15 Business Plan[39] and three broader departmental operational indicators. This followed on from our 2011-12 review[40] in which we examined all of the impact indicators in the Treasury's 2011-12 Business Plan.[41] **Figure 11** summarises our assessment of the data systems underlying the second tranche of six indicators we have examined. We found that all six indicators that we looked at have well defined systems in place to collect the information to report against the indicator although we found some weaknesses in the documenting of risk assessments of the data systems underpinning the indicators reported and the reporting of the indicators.

2.13 As part of this work, we also looked at performance reporting and at the Treasury's information strategy.

2.14 Our report found that the Treasury had improved the range of business plan indicators it reported since 2011-12 but that these indicators still did not cover all aspects of its priorities. Indicators are designed to be illustrative, rather than comprehensive; however, we concluded that the Treasury needed to consider whether the business plan indicators it had chosen provided sufficient coverage of Coalition priorities.

2.15 The government's ICT strategy, published by the Cabinet Office in March 2011, required all departments to develop and publish information strategies by March 2012, but at the time our review was published, in August 2013, the Treasury had still not produced one.

The Department in a cross-government context

2.16 In addition to our work on individual departments, the NAO increasingly looks at performance across government, in order to understand how different departments measure up on important issues. Of the cross-government reports we have published in the last year, there are a number where the Treasury has a lead policy role.

Effectiveness of internal audit

2.17 Internal audit in central government aims to provide independent and objective assurance to the most senior management about the financial and operational controls surrounding core systems, about governance and about the risk management processes needed to support sound financial management. It provides an internal but independent view of where better management of risk can improve organisational performance.

38 National Audit Office, *2012-13 review of the data systems for HM Treasury*, August 2013. Available at: www.nao.org.uk/report/2012-13-review-of-the-data-systems-for-hm-treasury/, accessed 22 August 2013.
39 HM Treasury, *HM Treasury Business Plan 2012–15*, May 2012. Available at: www.gov.uk/government/publications/hm-treasury-business-plan-2012-to-2015, accessed 22 August 2012.
40 National Audit Office, *2011-12 review of the data systems for HM Treasury*, August 2012. Available at: www.nao.org.uk/report/review-of-the-data-systems-for-hm-treasury/, accessed 22 August 2013.
41 HM Treasury, *Business Plan 2011–15*, November 2010. Available at: www.gov.uk/government/publications/hm-treasury-business-plan-2011-to-2015, accessed 22 August 2013.

Figure 11
A summary of the results of our data assurance exercise

Score	Meaning	Indicators we reviewed Operational indicator (O) Business plan indicator (B)
4	The indicator's data system is fit for purpose	B1: Overall impact of spending, tax, tax credit and benefit changes on households in 2014-15 as a percentage of 2010-11 net income
3	The indicator's data system is fit for purpose but some improvements could be made	B2: Business investment as a share of Gross Domestic Product B3: Government shareholding in banks: Royal Bank of Scotland, Lloyds Banking Group O1: UK Business surveys O3: Staff in post (core Treasury only) compared to workforce plans
2	The indicator's data system has some weaknesses which the Department is addressing	O2: Spending data
1	The indicator's data system has weaknesses which the Department must address	
0	No system has been established to measure performance against the indicator	

Notes
1 The ratings are based on the extent to which departments have put in place and operated internal controls over the data systems that are effective and proportionate to the risks involved.
2 Further detail on the business plan indicators can be found in the HM Treasury Business Plan 2012–15, May 2012.
3 Operational indicators are reported internally to the Treasury Board.

Source: National Audit Office Data Assurance Summary Report: HM Treasury

2.18 The Treasury is responsible for setting standards and policies for central government internal audit. The C&AG's Report, *The Effectiveness of Internal Audit in Central Government*,[42] found, however, that departments' expectations about internal audit were unclear, leading to wide variations in the standards being applied. In the report, users also identified particular areas where internal audit could be more effective (**Figure 12** overleaf).

42 Comptroller and Auditor General, *The Effectiveness of Internal Audit in Central Government*, Session 2012-13, HC 23, National Audit Office, June 2012.

Figure 12

Key users' views of the areas with potential for 'some' or 'substantial' improvement in the focus of internal audit

Respondents to our consultation stated that there was potential for improvements in the work of internal audit, particularly in the identification of efficiencies for the organisation

Source: National Audit Office consultation with key users of internal audit

2.19 Since the report was published, the Treasury has made some important changes to internal audit, partially in response to the NAO's findings, but also as part of the Internal Audit Transformation Programme (IATP) and in support of the Civil Service Reform Plan requirement to implement shared services in internal audit. The Treasury has introduced grouped internal audit services and, from 1 April 2013, central government is adopting new internal audit standards.[43]

43 *Fact sheet: Recent developments in government internal audit and assurance*, National Audit Office, April 2013. Available at: www.nao.org.uk/report/fact-sheet-recent-developments-in-government-internal-audit-and-assurance-spring-2013/, accessed 22 August 2013.

Managing budgeting in government

2.20 The Treasury designs and manages the budgetary system to enable it to allocate and control government spending. Spending reviews determine the allocation of resources between departments, looking forward three or four years. These reviews set the expected spending limits to which departments have to adhere when requesting resources from Parliament through the annual budgetary process. Departments then manage their spending within the rules that the Treasury sets.

2.21 The C&AG's Report, *Managing budgeting in government*,[44] found that the current budgeting system addressed the Treasury's objective to control government spending. However, the system was less effective at meeting its objectives to support informed prioritisation and value for money. It concluded that information failings in the budgetary system hindered the government's ability to demonstrate that resource allocations represented optimum value for money.

2.22 Many aspects of government budgeting compared well with good budgetary practice; however, the budgetary system lacked clear links to results and was insufficiently integrated with business planning. The report concluded that the Treasury needed to work with the Efficiency and Reform Group and departments to identify weaknesses in current information and define management information (such as unit cost data) that could inform budgeting, planning, monitoring and review.

2.23 The data required to inform decision-makers on optimal resource allocation was not readily available and in some places did not exist. As shown in **Figure 13** overleaf, the case study departments varied in their preparedness for the Spending Review. They did not initially supply some of the required data and, in line with Treasury requirements, their responses were largely qualitative and lacked cost–benefit assessments. Information on the value of resource spending was patchy and often hard to compare.

Integration across government

2.24 Integration in government refers to the coordination of working arrangements where multiple departments or public sector organisations are involved in providing a public service or programme. Integration offers government the potential for substantial cost savings and service improvements.

44 Comptroller and Auditor General, *Managing budgeting in government*, Session 2012-13, HC 597, National Audit Office, October 2012.

Figure 13
Departments' initial response to the Treasury's data requests

Departments varied in their initial responses to the Treasury's request for data to inform SR10: none supplied all the data required and none provided data on unit costs

We identified **70** distinct information requests in the Treasury's SR10 guidance to departments...

...**35** items appeared to be required of all departments...

...and for these, our case studies initially provided most items, but with some variations and omissions:

Department[2]	Clearly supplied in full
DWP	29
DFID	29[3]
DfT	28
DCLG	27
DECC	13

...**26** items may have been required from departments depending on their circumstances...

...for these our case study departments varied in their initial provision of information, but this may have reflected their circumstances:[1]

Department[2]	Clearly supplied in full
DfT	18
DCLG	8
DECC	7
DWP	5
DFID	4

...**9** items appeared to be optional for all departments...

...in particular, departments were asked to supply, where available, the following data for one key output for each of their five resource spending areas:

Item

- volumes since 2000
- unit costs since 2000
- estimated volumes 2011–2015
- estimated unit costs 2011–2015
- international comparisons
- private sector comparators
- public sector comparators

No case studies supplied these data in their initial submissions.

Notes

1 In a small number of cases, it is unclear whether a request was fully or partially met.

2 DWP = Department for Work & Pensions, DFID = Department for International Development, DfT = Department for Transport, DCLG = Department for Communities and Local Government, DECC = Department of Energy & Climate Change.

3 The Treasury agreed that DFID need not supply two of the items required in its guidance.

Source: National Audit Office

2.25 The C&AG's report, *Integration across government*,[45] found cases where poor integration had caused service delivery failures or programme objectives to be missed. The report recommended that the Cabinet Office and the Treasury should improve their 'sponsorship' of integration efforts across government. **Figure 14** sets out which parts of the centre of government could take on an enhanced role in sponsoring integration, consistent with their existing objectives and activities.

2.26 The NAO's conclusion was that the centre of government should lead integration efforts more strongly, addressing any lack of coherence and sending clear signals about the importance of integration. This might involve adapting existing mechanisms to embed a commitment to integrated working rather than establishing new structures, e.g. the Treasury could commission cross-cutting policy reviews to inform the Spending Review process, and more actively encourage departments to submit joint funding bids. The Treasury could also explicitly monitor savings from integrating services and programmes, as part of its remit to monitor cost savings across government.

Figure 14

Illustration of how improved central sponsorship could be achieved with existing structures

Helping identify integration opportunities	Supporting integration implementation	Monitoring integration savings
Cabinet Office **Economic and Domestic Affairs Secretariat:** Identifying areas for integration through its policy coordination work **Civil Service Reform Unit:** Promoting more collaborative working through the Reform Plan **HM Treasury** Encouraging joint budgetary arrangements for integration initiatives	**Cabinet Office** **Implementation Unit:** Overseeing policy areas with integrated service or programme delivery **Efficiency and Reform Group:** Continuing implementation of back-office integration measures **Major Projects Authority:** Providing central assurance for project implementation, including major integration projects	**HM Treasury** Monitoring cost savings from integrated delivery **Cabinet Office** **Efficiency and Reform Group:** Monitoring back-office integration savings

Cabinet Office and HM Treasury

Creating environment and mechanisms, such as Social Outcomes Fund, intended to encourage and support innovative forms of integrated delivery involving multiple bodies

Source: National Audit Office

45 Comptroller and Auditor General, *Integration across government*, Session 2012-13, HC 1041, National Audit Office, March 2013.

Assurance for major projects

2.27 In 2010, the NAO set out the good practice principles that would be present in a mature and effective assurance system for major projects. The government agreed with our assessment that the central system for assuring major projects was not optimal. In response, it established the Major Projects Authority (MPA) which was launched as a partnership between the Cabinet Office and the Treasury. The MPA aimed to improve the performance of government projects.

2.28 The C&AG's follow-up report, *Assurance for major projects*,[46] found that the creation of the authority has contributed to some significant impacts, such as improved data on major projects in general and specific positive outcomes on some individual projects, including decisions to halt a number. The Treasury has agreed with a recommendation made by PAC to use MPA data routinely to manage its spending in future and to prioritise resources between projects. In response to NAO and PAC recommendations, data on major projects was reported publicly for the first time in May 2013.[47]

Financial management in government

2.29 The C&AG's report, *Financial management in government*,[48] found that, while government had succeeded in controlling spending in a number of areas, it still faced a significant challenge in redesigning and transforming public services so that they would operate sustainably in the context of further reductions to departmental spending, especially where these were combined with increased demand.

2.30 According to the report, the Treasury needs to provide more effective central leadership to support public bodies in providing services at permanently lower costs. The chances of success in cost reduction would be much greater if financial managers were put more at the centre of decision-making. Financial management should be integrated fully within processes to design and implement target operating models, and the financial impact of all options should be a key factor in decision-making by finance and non-finance professionals alike.

2.31 The Treasury, working alongside the Cabinet Office, should also provide more effective central leadership to the finance profession so that it can better confront the challenges it faces, for example by strengthening the evidence base for key processes like spending reviews to better inform the allocation and prioritisation of resources across government. The Treasury should also do more to encourage the identification of opportunities where early action or service integration could improve value for money.

46 Comptroller and Auditor General, *Assurance for major projects*, Session 2010-12, HC 1698, National Audit Office, May 2012.
47 Cabinet Office, *The Major Projects Authority Annual Report*, May 2013. Available at: engage.cabinetoffice.gov.uk/major-projects-authority/, accessed 22 August 2013.
48 Comptroller and Auditor General, *Financial management in government*, Session 2013-14, HC 131, National Audit Office, June 2013.

2.32 The Government Finance Profession (GFP), supported by the NAO, published a paper in July 2013, *Putting finance at the heart of decision-making*.[49] This issue is considered to be central to the Finance Transformation Programme, which was announced in January 2011.[50] The report by the GFP calls for leaders and managers across government to strengthen financial management in their organisations and to monitor and report on the progress they are making, so that financial information is better used to support business decision-making. To help achieve this, the paper confirms that the Treasury, along with all other Whitehall departments, will undertake a financial management review over the next two years.

Confidentiality clauses and special severance payments

2.33 The C&AG's report, *Confidentiality clauses and special severance payments*,[51] found that there was a lack of transparency, consistency and accountability in how the public sector used compromise agreements. It was noted that neither the Cabinet Office nor the Treasury provided formal guidance to departments, and that they did not keep records of approved special severance payments or departments' use of compromise agreements.

NAO work in progress

2.34 Work currently being undertaken by the NAO relating to the Treasury that will be published in the next year includes the following reports:

- **Money Advice Service: Empowering consumers of financial services** (Autumn 2013), will assess how effectively the Money Advice Service uses its resources to engage with customers and stakeholders in order to achieve its statutory objectives.

- **The impact of infrastructure investment on consumers** (Autumn 2013) will consider whether the government is taking appropriate steps to manage the cost to consumers of new infrastructure investment, examining whether these costs are transparent; and whether this work is sufficiently coordinated across different sectors. It will also look at the total impact of infrastructure investment on consumers.

- **Financial Conduct Authority and Prudential Regulation Authority: Regulating financial services** (early 2014), will examine the new regulatory framework and approach following the reforms introduced by the Financial Services Act 2012. It will look at the impact of the changes and review the performance measurement system used by the new regulators.

49 Government Finance Profession, *Putting finance at the heart of decision-making*, July 2013.
50 HM Treasury, *Press release*, 20 January 2011. Available at: www.gov.uk/government/news/government-announces-new-steps-to-strengthen-financial-discipline-in-the-public-sector, accessed 22 August 2013.
51 Comptroller and Auditor General, *Confidentiality clauses and special severance payments*, Session 2013-14, HC 130, National Audit Office, June 2013.

Part Three

Briefing on Treasury activity to promote investment in infrastructure

3.1 The main areas of HM Treasury activity – the control of public spending, the development of UK economic policy and the pursuit of growth – all have an impact on infrastructure. HM Treasury sets capital spending limits for departments and approves high value projects, it sets fiscal policies and rules on government financing, and it directs investment to stimulate growth. Through these activities the Treasury influences what infrastructure gets built, how it is financed, and how much it will cost the public sector. This briefing describes the Treasury's activity in this important area in recent years.

3.2 In 2010, the government set up Infrastructure UK, a specialist unit which leads HM Treasury's infrastructure strategy and policy development. Infrastructure UK is located within the Treasury's Enterprise and Growth Unit and is responsible for:

- coordinating and simplifying the planning and prioritisation of investment in UK infrastructure; and
- improving UK infrastructure by achieving greater value for money on infrastructure projects and transitions.

3.3 Infrastructure UK also provides a central coordination role to the new Economic Affairs – Infrastructure Cabinet Committee, which is chaired by the Chief Secretary to the Treasury. Infrastructure UK currently employs around 50 staff, including both civil servants and commercial specialists. It is supported by a 15-strong Advisory Council comprised of individuals drawn from government departments that deliver infrastructure, and private sector representatives with deep experience in areas such as construction, operations, regulation, finance and technology.[52]

52 For further information, see Infrastructure UK, *Our Governance*. Available at: www.gov.uk/government/organisations/infrastructure-uk/about/our-governance, accessed 1 August 2013.

The National Infrastructure Plan

3.4 One of Infrastructure UK's first actions was to develop a National Infrastructure Plan which aimed to: "specify what infrastructure we need, identify the key barriers to achieving that investment and to mobilise the resources, both public and private, to make it happen."[53]

3.5 The first National Infrastructure Plan was published in October 2010 and outlined the government's vision for the future of UK economic infrastructure. The plan looked at the networks and systems that provide the infrastructure on which the economy depends, including energy, transport, digital communications, flood management, and water and waste infrastructure. It outlined the challenges facing UK infrastructure, requiring new investment, including:

- the obsolescence of much of the UK's existing infrastructure;
- the need to keep pace with other countries to stay competitive in a global market;
- growing demand for the use of our existing networks; and
- climate change, and the need to decarbonise infrastructure.

3.6 The National Infrastructure Plan also aimed to identify priority projects, both longterm and more immediate, to help mobilise the necessary private sector investment by providing greater clarity for investors and businesses. Following the 2010 National Infrastructure Plan, the government published, in 2011, an infrastructure 'pipeline' giving details of 550 potential projects. The latest update of the infrastructure pipeline, produced in late 2012, estimated the total value of these projects at £310 billion. Energy and transport infrastructure accounts for 86 per cent of this total, although the Treasury recognises that information is not complete across all sectors. With limited public funds available, the government looks to private companies to finance at least two-thirds of the £310 billion required investment.[54]

53 Infrastructure UK, *Press Release*. Available at: www.gov.uk/government/news/government-launches-national-infrastructure-plan, accessed 1 August 2013.
54 Infrastructure UK, *Infrastructure investment pipeline*. Available at: www.gov.uk/government/publications/infrastructure-investment-pipeline, accessed 2 August 2013.

3.7 The Comptroller and Auditor General's February 2013 report, *Planning for Economic Infrastructure*,[55] identified five potential risks to value for money, to which the government should have regard:

- Inaccurate identification of the need for infrastructure. For example, forecasters may overestimate demand, in which case benefits are lower than expected and poor value for money is the result.
- Policy uncertainty. This could result in project sponsors, lenders and contractors deferring or abandoning UK projects in favour of opportunities elsewhere. Financing charges for projects may also rise as investors and lenders perceive policy uncertainty as a risk.
- Failure to assess the cumulative impact on consumers of funding infrastructure through user charges. This increases the risk of financial hardship for consumers, or the need for unplanned taxpayer support. This is an issue which the NAO will return to in examining how departments and regulators deploy their resources to secure consumer interests.
- Taxpayer exposure to losses. This will happen if the government guarantees to bear or share project risks – for example cost overruns – when those risks materialise.
- Delivery costs are higher than they should be. UK infrastructure costs have historically been higher than overseas.

3.8 We recommended in the report that the Treasury and departments may need to refine their prioritisation of infrastructure programmes and projects, and that there needed to be greater clarity for consumers about the financial impact of planned infrastructure investment.

Reducing the costs of infrastructure

3.9 Alongside the 2010 National Investment Plan, Infrastructure UK published a Cost Review which found that UK infrastructure was more expensive than in comparable European countries and identified scope for at least 15 per cent efficiency savings.[56] As part of its ongoing work in response to the Cost Review, Infrastructure UK has published a procurement 'route map', providing guidance about best practice in public sector procurement. The guidance aims to remove inefficiencies, recognising that: "while there is no 'one size fits all' solution to the delivery of infrastructure there are common characteristics for effective delivery that must be applied more consistently."[57]

55 Comptroller and Auditor General, *Planning for Economic Infrastructure*, Session 2012-13, HC 595, National Audit Office, January 2013.

56 HM Treasury, *Infrastructure Cost Review: annual report 2012-13*, June 2013. Available at: www.gov.uk/government/publications/infrastructure-cost-review-annual-report-2012-to-2013, accessed 22 August 2013.

57 For more information, see HM Treasury, *Government launches new guide to infrastructure delivery*. Available at: www.gov.uk/government/news/government-launches-new-guide-to-infrastructure-delivery, accessed 5 August 2013.

3.10 In July 2011, the government announced its commitment to deliver at least £1.5 billion in savings from operational Private Finance Initiative (PFI) contracts in England, setting up a programme to identify these efficiencies.[58] The 700 operational PFI projects have a remaining nominal revenue commitment of more than £200 billion, and are spread across the whole of the public sector, including local authorities and NHS Trusts.[59] Since the initial announcement, the Treasury has reported over £1.5 billion of committed efficiencies and savings, with a further £1 billion in discussion.[60] The NAO is currently carrying out assurance work on these reported savings.

Financing for infrastructure projects

PF2

3.11 In December 2012, the government unveiled Private Finance 2 (PF2), the successor to PFI, as the government's preferred model for public–private partnership in future. Like PFI, PF2 is intended to provide private finance for public projects, but there are intended to be differences with the previous model, namely:

- a faster procurement process;
- increased flexibility in how management services are procured;
- a stronger voice for the public sector on key management decisions through government taking an equity stake in projects; and
- greater transparency over public sector liabilities and investor returns.

3.12 The first application of PF2 is on the Priority Schools Building Programme, which is estimated to cost up to £1.75 billion. Forty-six of the 261 schools which are to be rebuilt or improved are to be financed under the PF2 scheme, with a funding requirement of approximately £700 million.[61] A new unit has been set up within Infrastructure UK to manage the public sector's representation on the boards of PF2 projects. Infrastructure UK has said that decisions to invest public sector equity will be taken by an investment committee which will include two independent members.

58 HM Treasury and Infrastructure UK, *Improved infrastructure delivery is on track*. Available at: www.gov.uk/government/news/improved-infrastructure-delivery-is-on-track

59 HM Treasury, *A new approach to public private partnerships*, December 2012. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/205112/pf2_infrastructure_new_approach_to_public_private_parnerships_051212.pdf, accessed 22 August 2013.

60 For more information, see HM Treasury, *A new approach to public private partnerships*, December 2012. Available at: www.gov.uk/government/publications/private-finance-2-pf2, accessed 22 August 2013.

61 For more information, see: Education Funding Agency and Department for Education, *Private finance to fund rebuilding of 46 schools under the next steps of the Priority School Building Programme*, available at: www.gov.uk/government/news/private-finance-to-fund-rebuilding-of-46-schools-under-the-next-steps-of-the-priority-school-building-programme, accessed 7 August 2013, and Department for Education, *Background to the Priority School Building programme*, available at: www.education.gov.uk/schools/adminandfinance/schoolscapital/priority-school-building-programme/a00221986/backgroundpriorityschoolbuildingprogramme, accessed 9 August 2013.

UK Guarantees Scheme

3.13 To avoid delays to infrastructure projects caused by a shortage of long-term financing, the Treasury launched, in July 2012, the UK Guarantees Scheme which offered guarantees to support up to £40 billion of new infrastructure. The scheme was initially intended to close by December 2014 but will now remain open until December 2016. So far the Treasury has announced a £75 million guarantee for the conversion of the DRAX coal fired power station in North Yorkshire. It has also said that projects with a value of up to £14 billion are pre-qualified for guarantees, although the guarantees themselves have not yet been finalised. These projects include:[62]

- Hinkley Point C, a new nuclear power station (value not available);
- the Northern Line underground extension to Battersea (£750 million);
- the Mersey Gateway bridge (up to £500 million); and
- housing regeneration in Tottenham (value not available).

Ensuring the skills and capability required to deliver infrastructure

3.14 Strong commercial skills are essential if the public sector is to secure value for money for consumers and taxpayers on complex infrastructure projects. Infrastructure UK has recruited a number of commercial specialists, including appointing individuals with significant private sector experience of advising on infrastructure delivery and finance. Infrastructure UK is also seconding some of its commercial specialists into infrastructure project teams across government in order to boost expertise within departments.

3.15 The Major Projects Authority is a partnership between the Treasury and the Cabinet Office and it exists to provide the government with assurance on major projects, including many complex infrastructure projects. As part of its work, the Major Projects Authority has established a Major Projects Leadership Academy to improve the quality of Whitehall's delivery expertise.[63]

3.16 The Commercial Secretary to the Treasury, working with Infrastructure UK and the Major Projects Authority recently undertook an assessment of Whitehall's ability to deliver infrastructure. The assessment has not been published, but in response to this review the Treasury has recently announced "the establishment by the summer [2013] of tough new Infrastructure Capacity Plans to drive forward progress in key Government Departments".[64]

62 For more information, see HM Treasury, *Investing in Britain's Future*, June 2013. Available at: www.gov.uk/government/publications/investing-in-britains-future, 22 August 2013.

63 Cabinet Office and Efficiency and Reform Group, *Managing major projects more effectively.* Available at: www.gov.uk/government/policies/managing-major-projects-more-effectively, accessed 2 August 2013.

64 For more information, see HM treasury and Infrastructure UK, *Infrastructure delivery update.* Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/204634/infrastructure_delivery_update_200313_1_.pdf, accessed 2 August 2013.

Appendix One

The HM Treasury Group 1 April 2013 (for accounting purposes)[65]

HM Treasury	
Core Department	Formulates and implements the UK government's financial and economic policy. Takes the lead in responding to the financial crisis.
Infrastructure Finance Unit	A company which provides loans to support PFI projects and investment to SMEs through the Business Finance Partnership.
Office for Tax Simplification	Provides independent advice to government on simplifying the UK tax system.
Executive Agencies	
Debt Management Office	Responsibilities include debt and cash management for the UK government, lending to local authorities through the Public Works Loans Board and managing certain public sector funds. The DMO also manages the National Loan Guarantee Scheme on behalf of Treasury.
Arm's-length bodies	
Office For Budget Responsibility	An independent advisory non-departmental government body (NDPB) with the responsibility to provide authoritative analysis of the UK's public finances
UK Financial Investments	A company established to manage Treasury's shareholdings in banks (other than Bank of England), currently UK Asset Resolution, Royal Bank of Scotland and Lloyds Banking Group.
Financial Services Compensation Scheme	An arm's-length body (ALB) of Treasury funded by industry. It manages a single scheme to provide compensation in the event that an authorised firm cannot meet claims against it.
Money Advice Service	An ALB funded by industry. Its role is to enhance public understanding of financial matters.
Sovereign Grant	From 1 April 2012 Treasury became responsible for making the Sovereign Grant to the Royal Household to support the Queen in her official duties.
Royal Mint Advisory Committee on the design of coins, medals, seals and decorations	An advisory NDPB which incurs no expenditure. It recommends such designs to the Chancellor, normally following a competition.

65 The Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2013. Available at: www.legislation.gov.uk/uksi/2013/488/pdfs/uksi_20130488_en.pdf, accessed 22 August 2013.

Appendix Two

Results of the Civil Service People Survey 2012

Question Scores (% strongly agree or agree)	HM Treasury	Civil Service	Department for Business, Innovation & Skills (excluding agencies)
Leadership and managing change			
I feel that the department as a whole is managed well	62	43	39
Overall, I have confidence in the decisions made by the Department's senior managers	57	39	37
When changes are made in the Department they are usually for the better	35	25	19
The Department keeps me informed about matters that affect me	72	56	59
I think it is safe to challenge the way things are done in my Department	54	40	37
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	86	84	81
I have a clear understanding of the Department's objectives	80	79	74
I understand how my work contributes to the Department's objectives	82	82	79
Resources and workload			
In my job, I am clear what is expected of me	79	84	80
I have an acceptable workload	61	60	54
I achieve a good balance between my work life and my private life	62	68	63
Pay and benefits			
I feel that my pay adequately reflects my performance	20	31	29

Source: Civil Service people survey 2012, available at www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2012, accessed 28 August 2013

Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media & Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy & Climate Change	Department for Environment, Food & Rural Affairs (excluding agencies)	Foreign & Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding Agencies)	Department for Work & Pensions
38	31	23	19	39	39	29	56	31	21	39	63	48	43	29
40	30	18	16	35	42	29	50	33	19	35	58	43	39	23
22	14	12	9	17	25	14	36	14	14	18	32	29	19	20
57	54	56	41	55	67	56	62	49	40	60	69	61	63	46
41	29	32	30	36	43	37	45	31	29	38	44	41	43	33
73	67	64	80	83	87	74	83	68	75	84	94	79	80	79
63	63	62	72	77	84	70	80	62	72	80	92	73	74	77
73	72	70	76	80	86	75	84	69	75	81	91	77	79	78
80	80	78	78	81	79	78	88	81	82	78	85	83	83	84
64	51	51	54	60	50	53	65	59	61	58	55	66	60	57
65	59	58	63	68	56	64	69	64	71	64	62	71	64	65
30	34	31	30	41	29	28	33	37	24	40	39	40	39	23

Appendix Three

Publications by the NAO on the Department since April 2012

Publication Date	Report Title	HC Number	Parliamentary Session
9 August 2013	2012-13 review of the data systems for HM Treasury	www.nao.org.uk/report/2012-13-review-of-the-data-systems-for-hm-treasury/	
17 July 2013	Report of the Comptroller and Auditor General: Whole of Government Accounts 2011-12	HC 531	2013-14
16 July 2013	HM Treasury Resource Accounts 2012-13	HC 34	2013-14
24 April 2013	Administering the Equitable Life Payment Scheme	HC 1043	2012-13
31 October 2012	Report of the Comptroller and Auditor General: Whole of Government Accounts 2010-11	HC 687	2012-13
31 October 2012	Fact Sheet: Whole of Government Accounts 2010-11	www.nao.org.uk/report/fact-sheet-whole-of-government-accounts-2010-11/	
24 August 2012	Review of the data systems for HM Treasury	www.nao.org.uk/publications/1213/review_data_systems_for_hmt.aspx	
24 July 2012	Fact Sheet: Whole of Government Accounts	www.nao.org.uk/publications/1213/wga_fact_sheet.aspx	
16 July 2012	HM Treasury Resource Accounts 2011-12	HC 46	2012-13
18 May 2012	The creation and sale of Northern Rock plc	HC 20	2012-13

Appendix Four

Cross-government reports of relevance to the Department

Publication Date	Report Title	HC Number	Parliamentary Session
21 June 2013	Confidentiality clauses and special severance payments	HC 130	2013-14
13 June 2013	Financial management in government	HC 131	2013-14
13 March 2013	Cabinet Office and HM Treasury – Integration across government	HC 1041	2012-13
27 February 2013	Improving government procurement	HC 996	2012-13
21 February 2013	NAO briefing: Sustainability reporting in government	www.nao.org.uk/report/nao-briefing-sustainability-reporting-in-government/	
31 January 2013	Early action: Landscape review	HC 683	2012-13
16 January 2013	HM Treasury: Planning for economic infrastructure	HC 595	2012-13
19 December 2012	Office of Fair Trading: Regulating consumer credit	HC 685	2012-13
18 October 2012	Managing budgeting in government	HC 597	2012-13
11 July 2012	Regulating defined contribution pension schemes	HC 466	2012-13
20 June 2012	The effectiveness of internal audit in central government	HC 23	2012-13
13 June 2012	Central government's communication and engagement with local government	HC 187	2012-13
2 May 2012	Assurance for major projects	HC 1698	2010-12
18 April 2012	Implementing transparency	HC 1833	2010-12
April 2013	Fact sheet: Recent developments in government internal audit and assurance	www.nao.org.uk/report/fact-sheet-recent-developments-in-government-internal-audit-and-assurance-spring-2013/	

Where to find out more

The National Audit Office website is
www.nao.org.uk

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