NAO
National Audit Office

DEPARTMENTAL OVERVIEW 2019

HM TREASURY

MARCH 2020

HM TREASURY

This overview summarises the work of HM Treasury including what it does, how much it spends, recent and planned changes, and what to look out for across its main business areas and services.

CONTENTS

If you would like to know more about the NAO's work on HM Treasury, please contact:

Simon Helps
Director, Financial Audit, HM Treasury
simon.helps@nao.org.uk
020 7798 5317

If you are interested in the NAO's work and support for Parliament more widely, please contact:

parliament@nao.org.uk
020 7798 7665

Design & Production by NAO External Relations – DP Ref: 007628-001

About the Department

HM Treasury (the Department) is the government's economic and finance ministry, with overall responsibility for public spending. The Chancellor set the Department three objectives for 2018-19:

1. Placing the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services.
2. Ensuring the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU.
3. Increasing employment and productivity, and ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU.

With an additional corporate objective set by the Department's executive management board:

4. Building a great Treasury, by creating a more open, inclusive and diverse Department, underpinned by professionalism, skills and management excellence.

This has changed since 2017-18. There is explicit reference to the delivery of the UK's exit from the EU and the objective of placing the public finances on a sustainable footing must now be carried out in the context of ensuring value for money and improved outcomes in public services.

HM Treasury's remit

Financial Services Policy

Responsible for the overall financial services regulatory framework for banking and financial services regulation, financial stability and ensuring competitiveness in the City of London.

Strategic oversight of the UK tax system

Oversight of direct, indirect, business, property and personal taxes, and corporation tax.

Public Spending Policy

Responsible for departmental spending, public sector pay and pensions, annually managed expenditure and capital investment.

Ensuring the economy is growing sustainably

Managing the deficit and public sector debt. Spending taxpayers' money responsibly while creating a simpler, fairer system. Creating safer banks and improving regulation of the financial sector.

How the Department is structured

HM Treasury

The Department organises its group structure to achieve its strategic objectives. Examples of each type of organisation within the group structure are provided below:

- Executive agencies act as an arm of the Department; they have a clear focus on delivering specified outputs.
  - The National Infrastructure Commission (NIC) provides expert, impartial advice to the government on infrastructure, develops the national infrastructure assessment as well as specific studies and engages with the public and private sectors to consult on future infrastructure needs and solutions.
- Advisory and independent watchdog bodies operate separately from the Department.
  - The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances.
- Levies are collected as taxes and retained to fund levy-funded bodies.
  - The Financial Service Compensation Scheme (FSCS) provides compensation in the event that authorised financial services firms, such as banks, are unable to meet claims against them. The FSCS provided support to Bradford and Bingley (B&B) during the financial crisis. The FSCS is operationally independent from the Department.
- The Royal Household manages the Sovereign Grant on behalf of the Department.
  - The Sovereign Grant is used to support the Queen in the performance of her official duties and maintenance of the occupied royal palaces. It is calculated based on a percentage of the profits of the Crown Estate's revenue. The surplus revenue from the estate is paid each year to the Department.
- Other entities include several owned companies that are accountable to HM Treasury.
  - UK Asset Resolution Ltd (UKAR) is the holding company for the banks acquired during the financial crisis, bringing together the businesses of Northern Rock Asset Management Limited (NRAM) and B&B. Since its formation UKAR has been executing an investment strategy for disposing its investments in NRAM and B&B. The government's strategy is to wind-down UKAR by March 2020, subject to achieving value for money on remaining asset sales and market conditions remaining supportive.

Group structure of HM Treasury

Parent	Core Department	HM Treasury		
	Executive agency	UK Debt Management Office	Government Internal Audit Agency	National Infrastructure Commission
Group	Advisory/ independent watchdog	Royal Mint Advisory Committee	Office for Budget Responsibility	Financial Reporting Advisory Board
	Levy-funded Bodies	Financial Services Compensation Scheme		
	Managed by the Royal Household	Royal Household Sovereign Grant		
	Treasury-owned companies	UK Asset Resolution Ltd	UK Government Investments Ltd	
		Infrastructure Finance Unit Ltd	UKGI Financing Plc	
		UK Sovereign Sukuk Plc	IUK Investment Holdings Limited	
		Help to Buy (HTB) Ltd		

Notes

1 On 1 January 2019 the Money Advice Service (MAS) ceased trading and its functions transferred to a new body, Money and Pensions Service (MAPS), under a Machinery of Government change from HM Treasury to the Department for Work & Pensions (DWP).

2 On 31 March 2018 UK Financial Investments Ltd (UKFI) ceased trading. All of UKFI's activities have transferred to its parent company, UK Government Investments Ltd (UKGI), which has assumed responsibility for continuing UKFI's mandate.

3 UKGI manages HM Treasury's 100% shareholding in UK Asset Resolution Ltd (UKAR).

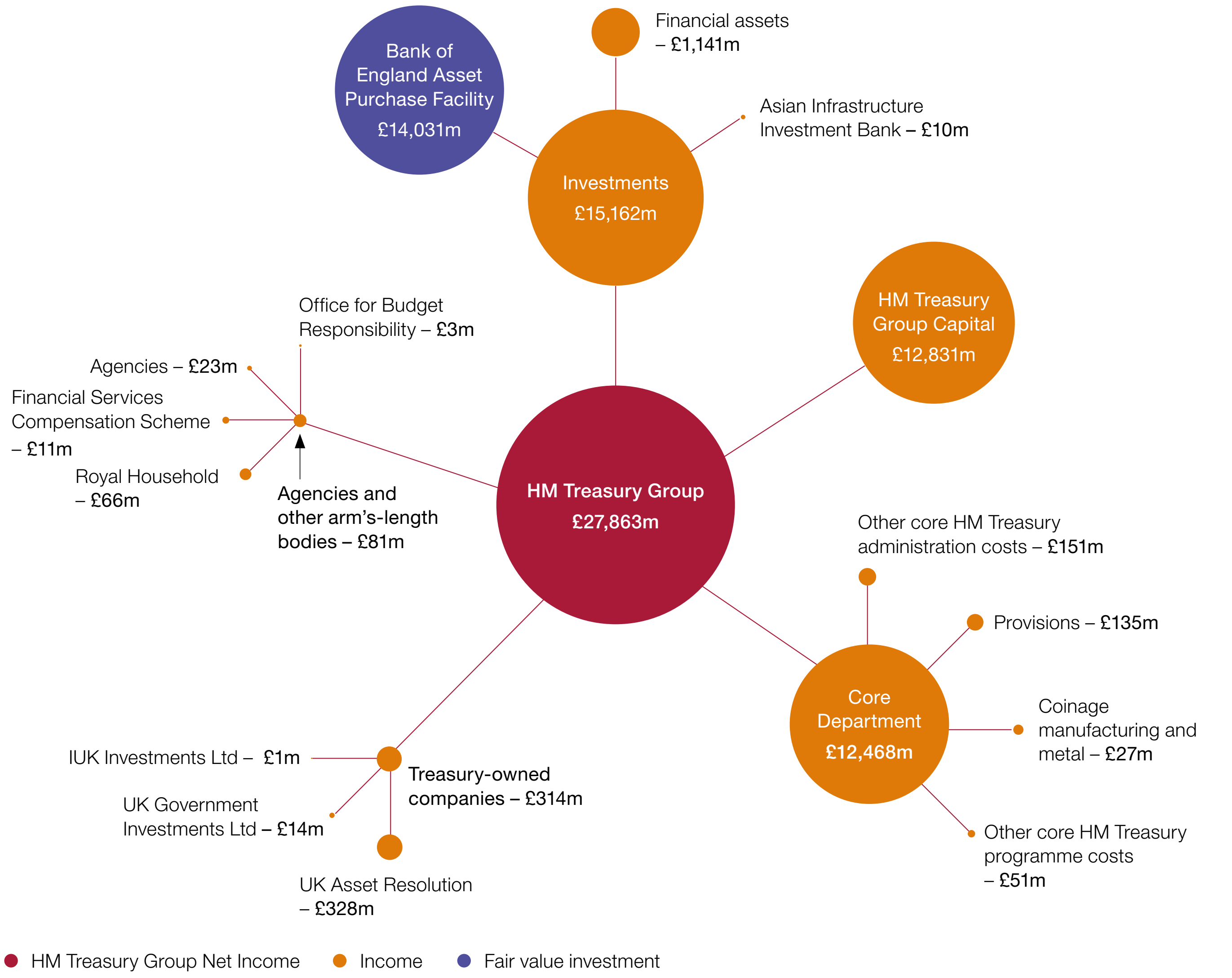
Where the Department spends its money

Income and expenditure form a small part of the overall financial statements which are dominated by the assets and liabilities recorded on the balance sheet.

The main source of HM Treasury's net income is from financial assets. This includes:

- Income of £15.2 billion from investments held by the Department, mainly arising from an increase of £14 billion in the market value of assets held by the Bank of England's Asset Purchase Facility Fund.
- Capital income of £12.8 billion, including:
  - the sale of £5.9 billion of mortgages held by B&B and NRAM limited and loans held by UK Asset Resolution (UKAR);
  - an increase in the value of HM Treasury's investment in the Bank of England due to the capital injection of £1.2 billion;
  - capital grant in kind of £314 million from the Department for International Development relating to the transfer of its share of the Asian Infrastructure Investment Bank to HM Treasury; and
  - the sale of £2.5 billion of Royal Bank of Scotland (RBS) shares in June 2018.

HM Treasury reported a £27.9 billion net resource and capital outturn in 2018-19



Notes

1 The figures are from HM Treasury's Statement of Parliamentary Supply for the period ended 31 March 2019.

2 Individual amounts may not add up exactly to the total due to rounding.

Source: National Audit Office analysis of HM Treasury *Annual Report and Accounts 2018-19*

Assets and liabilities

In 2018-19 HM Treasury Group held a total of £86.7 billion of assets, a decrease of £5.3 billion compared with 2017-18. Payments of £19.3 billion were made during the year to the Consolidated Fund, resulting from the operation of the Quantitative Easing programme, the sale of B&B mortgage assets and RBS shares and dividend income from RBS. Changes in the value of some assets which are susceptible to changes in market conditions resulted in a gain of £13 billion.

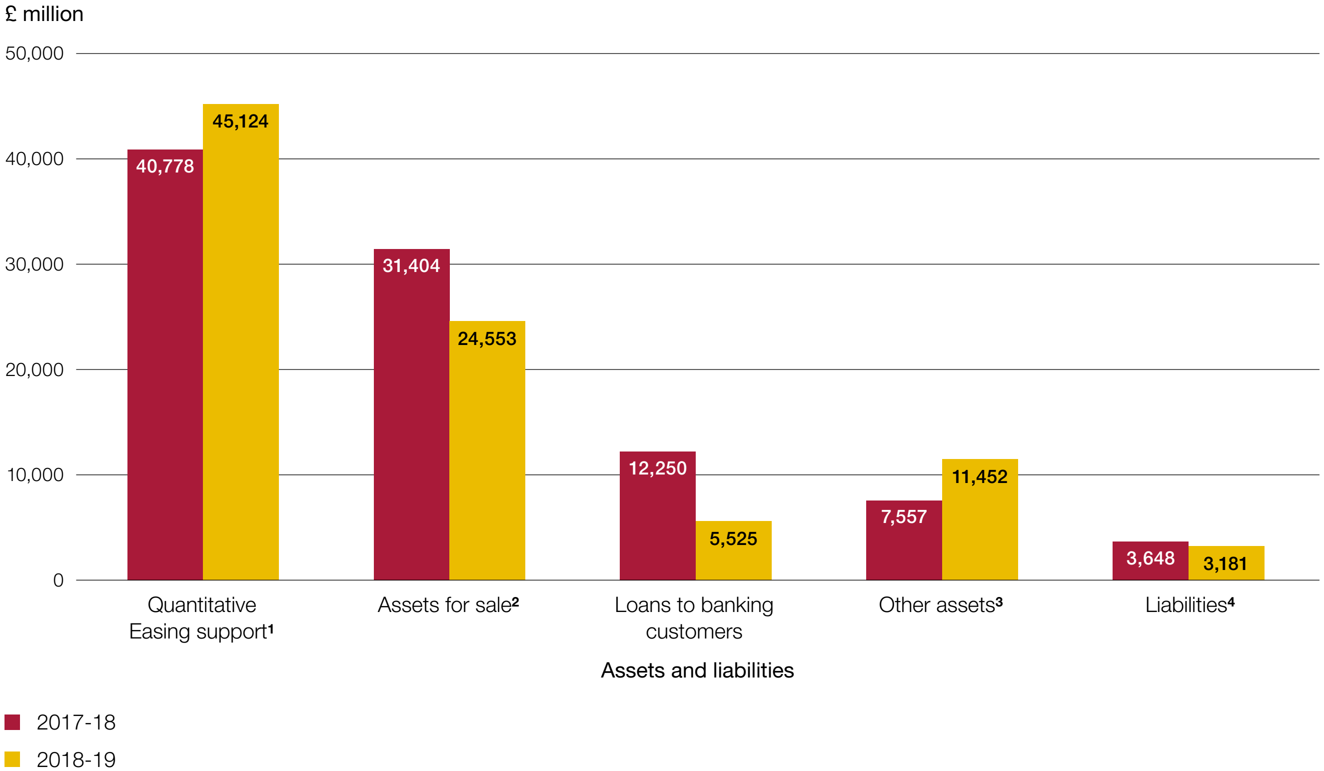
The £86.7 billion figure is predominantly made up of legacy assets following the government's financial interventions to support the stability of the UK banking system between 2007 and 2010:

- £45.1 billion of assets representing the Department's support to the Bank of England for any losses or profits from operating the Quantitative Easing programme. The value of this support fluctuates depending on prevailing market conditions;
- £24.5 billion largely comprising the government's holding in RBS;
- £5.5 billion of loans to banking customers covering mortgages and loans as part of the government's nationalisation of B&B and NRAM; and
- £11.5 billion of other assets including £4.5 billion from the sale of UKAR's NRAM mortgage loan assets where the cash proceeds were received after year-end. The mortgage assets were included within 'Loans to banking customers' in 2017-2018.

See Part Two for more information on returning assets to the private sector.

The Treasury Group had liabilities of £3.2 billion in 2018-19 compared with £3.6 billion the previous year.

HM Treasury held a total of £86.7 billion of assets and £3.2 billion of liabilities as at March 2019



Notes

1 Quantitative Easing is the Bank of England's programme of asset purchases (also referred to as the Asset Purchase Facility Fund) to stimulate demand by boosting the money supply and supporting asset prices.

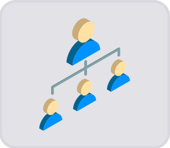
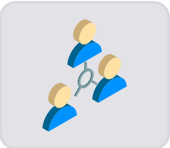
2 Assets for sale include shares in the Royal Bank of Scotland (RBS) and a portfolio of Bradford and Bingley (B&B) mortgage assets.

3 Other assets include property, plant and equipment, intangible assets, trade and other receivables, loans and advances, loan hedging assets, net pension assets, cash and inventory. More details can be seen in the Consolidated Statement of Financial Position in HM Treasury's *Annual Report and Accounts 2018-19*.

4 Liabilities include trade and other payables, provisions, financial securities, derivative financial liabilities and debt securities in issue. More details can be seen in the Consolidated Statement of Financial Position in HM Treasury's *Annual Report and Accounts 2018-19*.

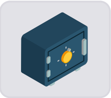
Source: National Audit Office analysis of HM Treasury *Annual Report and Accounts 2018-19*

Major programmes and developments

Major programmes and developments		Description
	Increased staff to deliver EU Exit	The core Department has grown to approximately 1,450 staff in the past year to meet the challenge of leaving the EU. The Department's workforce strategy was developed this year in response to high staff turnover. It included options to reposition the way the Department attracts, recruits and retains people.
	Programmes to encourage long-term investment	**National Productivity Investment Fund (NPIF):** the NPIF was established in 2016 to provide investment to areas critical for boosting productivity and promoting economic growth such as transport, digital communications, housing, and research and development. The autumn Budget 2018 announced the NPIF was expanded from £31 billion to £37 billion and extended to 2023-24, with more than £26 billion allocated, including £12.2 billion for housing, £6.7 billion for local transport, £7 billion for research and development and £740 million for digital infrastructure. **Digital Infrastructure Investment Fund (DIIF):** In July 2017 the Department launched the DIIF to boost investment in full fibre broadband. Acting as a cornerstone investor the Department committed to provide £400 million over a four-year period to 2021-22, to be matched by the private sector. Infrastructure investment firms, Amber Infrastructure and Infracapital, have been appointed to manage two complementary equity funds. At the end of March 2019, £334 million remains undrawn. **Charging Infrastructure Investment Fund (CIIF):** The autumn Budget 2017 announced the government would establish the CIIF with the aim to drive the roll-out of charging points for electric vehicles, committing £200 million of government investment to be matched by £200 million from the private sector. Zouk Capital was announced as preferred bidder for the fund in February 2019.
	Key personnel changes	**Chief Economic Advisor:** in April 2018 Clare Lombardelli took up post as Chief Economic Advisor following Dave Ramsden's appointment as Deputy Governor of the Bank of England. **Chair of the Audit Committee:** in October 2018, Tim Score took over as Chair of the Audit Committee, due to Richard Meddings stepping down from his role while he acted as the Executive Chairman of TSB. Richard Meddings took up this role again on 1 May 2019. **Other changes:** The Department is looking to recruit a further non-executive director (NED) to complete the aim set out in 2017-18 to have five NED members. On 1 March 2019 Rt Hon Lord Hill of Oareford CBE replaced Baroness Sarah Hogg as the lead NED. Amelia Fawcett stepped down from the board on 1 September 2018 and was replaced by Gay Huey Evans OBE on 1 January 2019.

Managing public money

Returning financial assets to the private sector



In 2018-19, as part of the government's ongoing programme to return the B&B and NRAM mortgage books to the private sector, UKAR completed the following sales:

- A £983 million sale of B&B and NRAM mortgages in September 2018.
- A £61 million sale of NRAM and B&B commercial loans in December 2018.
- A £4.9 billion sale of NRAM mortgages in March 2019.

These sales allowed UKAR to make the final instalment towards fully repaying the £48.7 billion loan it received from taxpayers as part of the government's response to the financial crisis.

In June 2018, UK Government Investments (UKGI) announced the sale of 925 million shares in RBS at 271p each. This raised more than £2.5 billion, reducing the government's shareholding to 62.1% by the end of March 2019. In October 2018, RBS made its first dividend payment to shareholders. A payment of 2p per share was made, with the government receiving a £150 million dividend. Further dividends were paid in April 2019 (£826 million) and September 2019 (£1,051 million).

> **Bank of England Asset Purchase Facility Fund (BEAPFF)**
>
> In early 2009, the Bank initiated a programme of asset purchases (often referred to as Quantitative Easing) to stimulate demand by boosting the money supply and supporting asset prices. The programme is run through the BEAPFF, a wholly owned subsidiary of the Bank.

Financial relationship with the Bank of England

On 21 June 2018 a new financial relationship between the Department and the Bank of England (the Bank) was agreed.

- The new arrangements include a more transparent capital and income framework for the Bank.
- Since the financial crisis, the Bank's role has expanded, while its ability to absorb losses, via holding capital, has not changed. The Bank received a capital (cash) injection from HM Treasury for £1.2 billion in March 2019 to bring the Bank's capital base up to a new target level of £3.5 billion.
- Alongside the cash injection, the Bank has taken loans worth some £121.4 billion, extended under the Term Funding Scheme (TFS), onto its own balance sheet from the Bank of England Asset Purchase Facility Fund (BEAPFF). This transfer occurred on 21 January 2019. The transfer of these loans reduces the Department's exposure to losses on BEAPFF – the Department provides an indemnity to the Bank to cover any losses, or conversely receive the profits, from operating the BEAPFF.

> **Term Funding Scheme (TFS)**
>
> This scheme provides funding to banks and building societies at rates close to Bank Rate.

Resource and capital spending

In 2018-19 the Department reported a £26.5 billion underspend in resource expenditure. This was mainly due to favourable movements in the value of the assets held within the BEAPFF, which is driven by changes in market prices that can be volatile and significantly impact HM Treasury's financial position. Fair value movements in those assets resulted in a gain of £14 billion during the year, whereas a decision was made on the grounds of prudence to request sufficient resources within the Parliamentary Estimate for the year to cover a potential £12 billion loss.

In 2018-19 the Department also reported a capital underspend of £4.5 billion. This saving is mainly due to sales of mortgage assets of £4.3 billion that occurred before year-end.

> **Resource spending**
>
> Relates to day-to-day operations, including administration costs such as salaries.
>
> **Capital spending**
>
> Relates to money spent acquiring or maintaining long-term assets, including those obtained through the support provided to UK financial institutions during 2008-09.

Exiting the European Union

EU Exit challenges

The Department faces a number of EU Exit challenges, particularly around the delivery of what the UK will pay as part of the financial settlement.

Issues identified as part of the National Audit Office's (NAO's) work on the EU financial settlement:

- Payments after 2020 will be outside the existing payment mechanism that the UK uses to contribute to the EU's budget and their associated structures for ensuring accuracy. HM Treasury needs to implement new processes for ensuring accuracy so the UK does not pay out more than is due.
- The government has some flexibility over when it can pay off some outstanding commitments. There is an option for the government to pay off the UK's share of the pension liability early. This can represent a risk as the lump sum will be an estimate of the total future liability, which could result in the UK overpaying if the assumptions do not hold in practice.

Managing fiscal risks

The Report of the Comptroller and Auditor General on the *Whole of Government Accounts 2017-18* stated that the medium- to long-term impact that exiting the EU will have on the economy and public finances is as yet unclear and will depend on the agreement the UK reaches with the EU.

The OBR's *Economic and Fiscal Outlook*, March 2019, noted that a considerable degree of uncertainty is likely to remain regarding the future trade and migration arrangements between the UK and EU, so any investment pick-up is likely to be limited. Therefore, while the OBR expects a rise in business investment the increase is less than would be typical given the limited amount of spare capacity left in the economy.

The UK's maximum liability under loans backed by the EU budget is £10.6 billion, as detailed in the *Whole of Government Accounts 2017-18*.

Securing sustainable public finances

Introduction

As the government department with overall responsibility for public spending, one of HM Treasury's main strategic objectives is to place the public finances on a sustainable footing. Updated from 2017-18 the objective must now be carried out in the context of ensuring value for money and improved outcomes in public services. The below targets are set out in the single departmental plan to meet this this central objective:

1 Ensure the sustainability of public finances (see page 11 – Use of proceeds from the sale of land and property)

The Department seeks to achieve this by keeping the government on course to meet its fiscal rules by reducing the structural deficit below 2% of GDP and get debt falling by 2020-21, guiding the UK to a balanced budget by the middle of the next decade, as well as through enhanced disclosures and management of fiscal risks.

2 Design sustainable taxes, benefits and pensions, consistent with sound public finances (see page 12 – HM Treasury's role in tax)

The Department seeks to achieve this by working with HM Revenue & Customs (HMRC) at each fiscal event to minimise loss of revenue from tax avoidance, evasion, debt and non-compliance, and reduce fraud, error and debt in the tax credit system, as well as by monitoring tax receipts and risks, and providing a credible pipeline of measures to ensure government can raise revenue to fund spending.

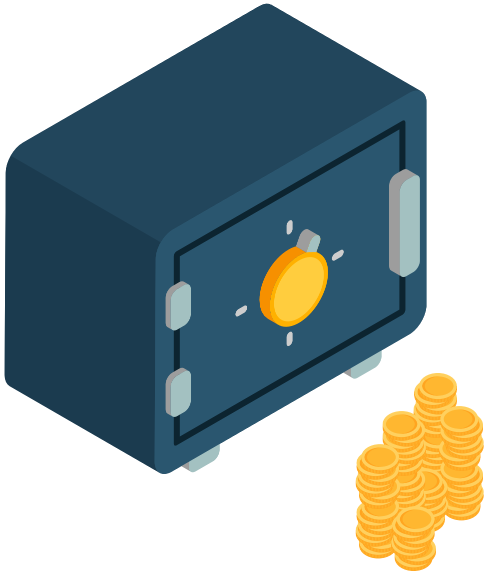
3 Control public spending, improving value for money and efficiency (see page 13 – Planning and spending)

The Department seeks to achieve this by controlling public spending in-year and across the current Spending Review period, preparing for and delivering the next Spending Review, as well as by establishing a strong centre to drive the Government's finance function, working across government to improve government finance and management information capability and meeting any statutory obligations on financial reporting.

4 Provide oversight of major public service expenditure to promote growth and support EU withdrawal and devolution (see page 13 – Planning and spending)

The Department seeks to achieve this by managing and monitoring public spending in key public services and departments, including the devolved administrations, as well as by implementing the current Spending Review settlements and preparing for the next Spending Review. Also ensuring the approach to EU withdrawal takes account of the specific circumstances of all regions and nations.

Source: HM Treasury, Single Departmental Plan 2019, June 2019. Available at: www.gov.uk/government/publications/hm-treasury-single-departmental-plan/hm-treasury-single-departmental-plan--2



Securing sustainable public finances *continued*

Use of proceeds from the sale of land and property

Policy to sell

The government has a policy to sell assets where it considers they no longer serve a public purpose and when value for money can be secured. In addition to selling financial assets, for example student loans and its shareholding in the Royal Bank of Scotland (RBS), the government also has a programme to raise £5 billion in proceeds between 2015 and 2020 from the sale of land and property.

Since March 2015, the government has raised £3.9 billion in proceeds from the sale of around 6,700 sites across government.

Use of proceeds

At each Spending Review the Department sets departmental budgets net of expected proceeds from asset sales. This means that in most cases, when an asset is sold, the proceeds can be retained and reinvested by the selling department. However, there are circumstances where this is not the case:

- when a department sells assets which were not anticipated during the Spending Review; or
- if the disposal proceeds are higher than expected.

Under these circumstances, some or all of the proceeds are released to HM Treasury.

Year	Number of sites sold	Total sales proceeds (£bn)
2015-16	537	1.06
2016-17	556	0.66
2017-18	395	0.75
2018-19	5,261	1.46
Total	**6,749**	**3.93**

Transparency & accountability

When proceeds are released to HM Treasury, they are gathered in a central fund. The proceeds can then be used in various ways such as:

- paying-down public debt;
- funding capital investment elsewhere across government; and/or
- filling revenue spending gaps across government.

Old War Office	
Description	The Old War Office is a Grade II listed building located in Whitehall, London. It contains around 1,100 rooms across seven floors.
Date Sold	March 2016
Sale proceeds	£357 million
Use of proceeds	All proceeds were retained by the Ministry of Defence.

Once in this central fund, it is not possible to trace how the proceeds are then used across government because the Department does not collect these aggregate data.

While there is an expectation that proceeds are reinvested, it is not possible to determine whether proceeds are being used to fund day-to-day running costs, rather than to invest in refurbishing existing assets or purchasing new ones.

When the proceeds are not released to HM Treasury, departments will hold information on how the individual disposal proceeds were used (see examples below).

Railway arches	
Description	Network Rail sold a portfolio of 5,261 rental spaces, with 70% of sites being converted railway arches.
Date Sold	February 2019
Sale proceeds	£1.46 billion
Use of proceeds	Network Rail was able to retain £500 million to put towards a funding shortfall to March 2019. The remaining proceeds were used to reduce Network Rail's expected borrowing from the Department for Transport.

Source: Comptroller and Auditor General, *Investigation into the government's land disposal strategy and programmes*, Session 2017–2019, HC 2138, National Audit Office, May 2019

Securing sustainable public finances *continued*

HM Treasury's role in tax

The Budget process

Each year the Chancellor of the Exchequer makes a Budget statement to the House of Commons outlining the state of the economy and the government's proposals for changes to taxation. The House of Commons debates the Budget and scrutinises the subsequent Finance Bill, which enacts the Chancellor's proposals.

The Budget and the Finance Bill are annual events that provide Parliament an opportunity to vote on tax changes. Income tax and corporation tax are annual taxes which have to be renewed by legislation each year. By contrast, most UK taxes including all indirect taxes, petroleum revenue tax and taxes on capital are 'permanent'.

Office for Budget Responsibility (OBR)

The government established the independent OBR in 2010 to monitor public sector finances. Alongside each Budget and Spring Statement, the OBR produces detailed forecasts for the coming five years, assessing the likely impact of any policy decisions and expected developments in the economy.

Office for Tax Simplification (OTS)

The government created the OTS in 2010 to provide independent advice on simplifying the UK tax system. The OTS is an independent office of the Department.

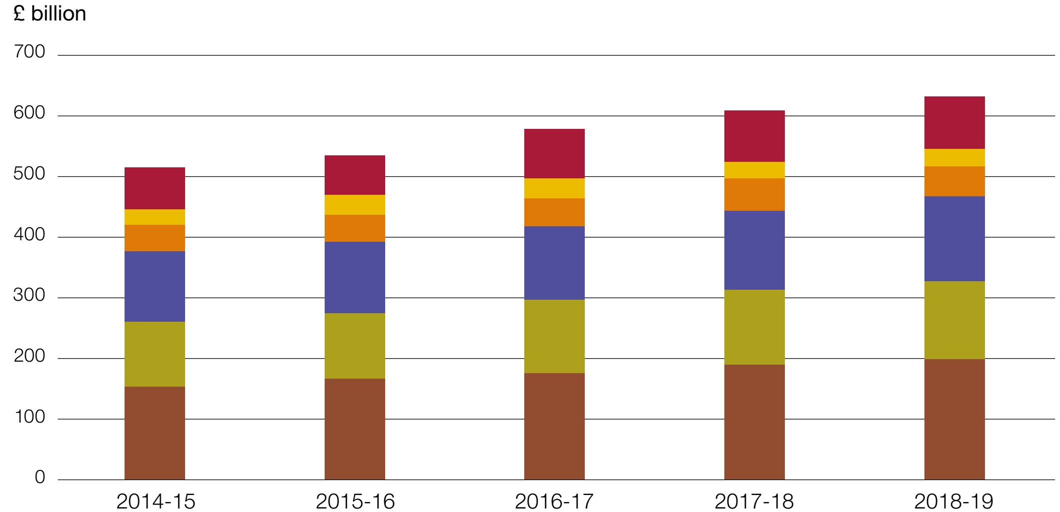
The role of HM Treasury in tax

The Department's remit includes strategic oversight of the UK tax system (including direct, indirect, business, property and personal taxes, and corporation tax). HMRC works in partnership with the Department to develop, design and deliver tax policy. The Department is responsible for strategic tax policy design and HMRC for delivering and maintaining policy and the administration of the tax system. The two departments share access to HMRC's analytical function, which publishes analysis of changes proposed in the budget and statistics on taxes and tax reliefs.

The two departments share oversight of tax reliefs and there is no single accounting officer responsible for their effectiveness. The NAO has published two reports on tax reliefs (in April and November 2014), which drew attention to the scale of tax relief and called for greater oversight by HMRC in partnership with HM Treasury. The OBR noted, in its *Fiscal risks report 2019*, that tax expenditures – those reliefs designed to promote another policy objective, such as investment in R&D – cost around 8% of GDP, a cost that has been rising and which receives less scrutiny than conventional public spending.

Tax revenues 2014-15 to 2018-19

Tax revenues have increased over the past five years



	2014-15	2015-16	2016-17	2017-18	2018-19
Other	64.1	66.2	75.1	79.5	81.8
Hydrocarbon oils	27.2	27.7	28.0	27.9	28.0
Corporation tax	41.4	45.5	51.1	53.3	53.5
VAT	113.9	116.0	124.4	128.6	135.6
National Insurance Contributions	108.0	112.0	122.5	130.5	135.0
Income tax	163.1	169.4	173.8	186.0	194.0
Total	**517.7**	**536.8**	**574.9**	**605.8**	**627.9**

Source: HM Revenue & Customs, *Annual Report and Accounts 2018-19*

Securing sustainable public finances *continued*

Planning and spending

Our 2018 report *Improving government's planning and spending framework* concluded that the Department has demonstrated that it is highly effective at controlling public spending and has, relatively recently, turned to a renewed drive to improve value for money. However, there are occasions when we see value for money being compromised by the needs of short-term spending control.

Our report highlighted:

Longer-term value for money

The Department's own success measures prioritise spending control over long-term value for money. But the measures can create incentives to favour short-term savings over longer-term value for money – as we have seen in the Department's past decisions on the use of private finance (see right).

Prioritisation

Over-optimism and unwillingness to prioritise are entrenched problems. The Department and the Cabinet Office could do more to use Single Departmental Plans to challenge departments' costings, and to examine overall affordability, deliverability and risk in government's combined plans.

Skills

To deliver a more integrated planning and spending framework that prioritises value for money, the Department will require different skills and more capacity from its spending teams.

Spending Review

In August 2019, the incoming Chancellor announced that a one-year Spending Round would be completed in September and a multi-year Spending Review carried out in 2020. The Spending Round was for resource spending in 2020-21 only, with a full multi-year review to follow in 2020 to set budgets for 2021-22 onwards. Our 2016 report on Spending Review 2015 found that the process was largely bilateral, which worked well as a control on departmental spending but prevented the Spending Review from maximising the value for money of spending by tackling difficult and entrenched issues that span departmental boundaries. The 2019 Spending Round announced a £200 million shared outcomes fund to pilot innovative approaches to cross-public sector working and a new focus on the outcomes the government will deliver.

There is a demand for greater transparency, both within and outside government, over the basis for spending choices. Departments told us they would like HM Treasury to have open conversations about the Spending Review process, align it with government's high-level strategic objectives, and incorporate checks to stop 'problem-shifting' between departments. Parliament has also made clear that it wants greater visibility of government's spending choices. Spending Review 2020 will be an important test of the improvements the Department and the Cabinet Office have made.

Trade-offs between spending control, fiscal measures and value for money: example

To keep Private Finance 2 off balance sheet, the Department reduced the amount that the public sector will receive from savings made by the private finance companies.

At Budget 2018, the Department announced that PFI and PF2 would no longer be used for new government projects. More than 25 years after PFI was introduced, the Department still has no data on benefits to show whether the model provides value for money. However, the Department and the Infrastructure and Projects Authority (IPA) are currently collating existing datasets in order to produce an evaluation of the benefits of PFI projects.

Principles of a good Spending Review process

- Evidence to support decisions
- An integrated view across organisational boundaries
- A longer-term view
- An understanding of the capability to deliver
- Timely information on performance to review success and hold departments to account

Short-term decisions that affect long-term value for money: examples

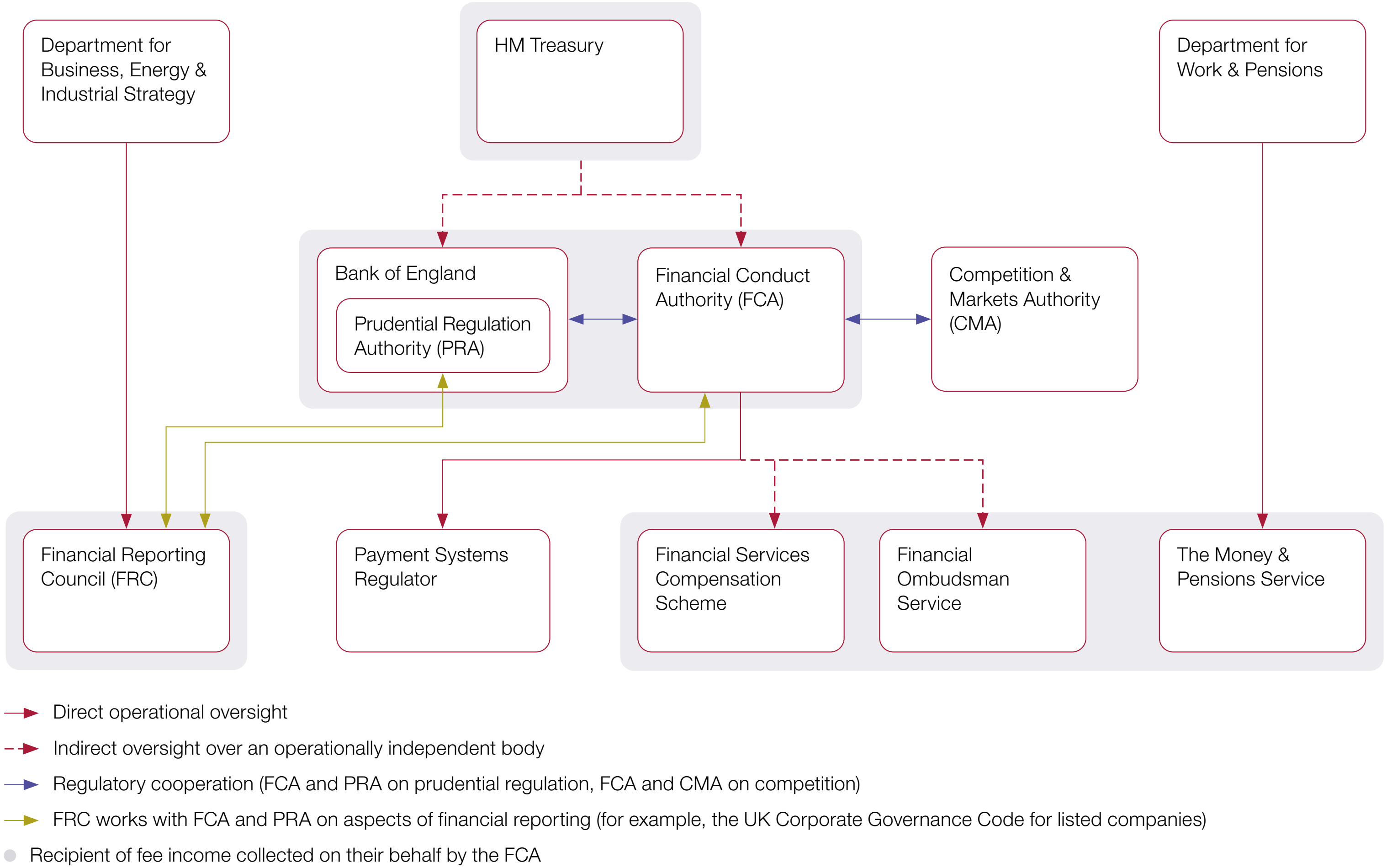
Area of service	Conclusion
Defence Equipment Plan, January 2018	To manage the short-term unaffordability of its Equipment Plan, the Ministry of Defence has delayed certain equipment and support programmes and reduced how much it spends on support. **Delays to some programmes have led to existing equipment being used for longer, which creates greater uncertainty and potentially cost.** Given savings measures, and as equipment is being used for longer, the Royal Navy is increasingly having to take spare parts from other vessels to keep ships and submarines afloat and maintain capability.
Capital spending for schools, April 2017	There is **insufficient focus on routine maintenance to keep school buildings in good condition and prevent more costly problems in the future**. The Department for Education uses its capital funding to address urgent needs, rather than to undertake preventative work, and prioritises repairing, refurbishing or rebuilding schools in the worst condition. Meanwhile, schools have to meet the cost of preventative maintenance and repairing smaller defects from their revenue budgets.

Source: National Audit Office

Ensuring the stability of the financial system

The financial services regulation landscape

The financial services regulatory landscape includes a number of regulatory and oversight bodies working together ultimately to support HM Treasury's (the Department's) overall objective of ensuring the stability of the financial system



Source: National Audit Office

Ensuring the stability of the financial system *continued*

Key findings from our recent work

Tackling problem debt (September 2018)

Our report examined the Department's overall approach to over-indebtedness, and how well it brings together government's, regulators' and other stakeholders' various activities and interventions to meet its objectives. We found:

- problem debt has a significant cost to public services. Our modelling found that the increased likelihood of anxiety or depression or being in state-subsidised housing from problem debt results in costs to the taxpayer of at least £248 million a year. We expect wider costs to be much larger;
- the Department relies on many organisations to meet its objectives on problem debt. It is taking a thoughtful and well-intentioned approach, but there are weaknesses in its information and accountability arrangements for ensuring that this approach is coherent, effective and responsive to changing risks;
- the Financial Conduct Authority (FCA) has regulated consumer credit since 2014 and has taken action to improve responsible lending, but recognises that it has more to do to tackle persistent and unsustainable debt; and
- the Money Advice Service[1] is responsible for improving financial capability and for commissioning free debt advice. It has improved coordination of interventions to raise financial capability, but its strategy does not involve all relevant parts of government.

Regulating to protect consumers (March 2019)

Our report assessed how well the FCA and three other regulators measure and report their performance. We found:

- consumer outcomes are affected by factors outside a regulator's direct influence, including consumer behaviour, economic conditions, or the work of government or other regulators. It is therefore important for regulators to have a good understanding of their own effectiveness and report this transparently;
- the FCA is working to improve how it measures and reports its performance, but like other regulators it has further to go to be able to do so robustly. The FCA has made particular progress with work to understand its impact and influence, and has evaluated the direct impact of three recent interventions; and
- regulators have to manage a number of trade-offs, for example between what works for average consumers and those in more vulnerable circumstances, or areas where their powers are limited. Regulators and government need to work closely together to manage these challenges.

Note

1 Since publication of the National Audit Office's report, the Money Advice Service has been subsumed into the Money & Pensions Service, which was launched in January 2019 and has been given a statutory function to develop and coordinate a national strategy to improve the financial capability of members of the public, their ability to manage debt and the provision of financial education to children and young people.

What to look out for

01 Exiting the EU

The Department's role as the UK's economic and finance ministry means it will need to manage a range of scenarios as the UK leaves the EU. Beyond the monitoring, communicating and delivery of the UK's payments under the financial settlement, the Department also has to consider other important areas such as:

- the UK's future relationship with the European Investment Bank (EIB), which provided the UK with €0.9 billion of financing in 2018;
- the need to ensure there is a robust regulatory regime for the UK's financial services;
- the UK's customs regime following EU Exit which the Department will need to assess together with HMRC;
- the government is forecast to sell around £42 billion worth of financial assets over the next five years. There is a risk that investor demand, and subsequently the potential sales price, is affected by the UK leaving the EU. This may have consequences for the sale programme; and
- the UK's exit from the EU takes place in a way that supports a stable, well-functioning financial system.

02 Financial regulation

The financial services regulatory landscape includes a number of regulatory and oversight bodies working together ultimately to support the Department's overall objective of ensuring the stability of the financial system.

- In March 2019 the FCA published the final report of its Mortgages Market Study, which identified that some consumers face barriers to switching to more affordable mortgages, including so-called 'mortgage prisoners'. The FCA published a consultation paper (CP19/14: *Mortgage customers: proposed changes to responsible lending rules and guidance*), which proposed changing FCA's mortgage lending rules to remove the regulatory barrier that currently prevents some customers from accessing new mortgage products. Following comments on the consultation paper, the FCA is due to release a policy statement by the end of 2019.
- In June 2019, the Department published a consultation response on the 'Breathing Space Scheme', which aims to give people in problem debt the opportunity to take control of their finances. The government intends to lay regulations on breathing space before the end of 2019, with a view to implementation in 2021.
- In July 2019, the Department published a consultation paper *Financial Services Future Regulatory Framework Review*, part of the Department's wider review to take stock of the overall approach to regulation of the financial services sector, including adaptation in relation to the UK leaving the EU.

03 Managing the end of PFI contracts

First introduced in the 1990s, the Private Finance Initiative (PFI) engaged the private sector to design, finance, build and maintain public infrastructure projects, such as a school, hospital or road. In return, the government makes annual payments to the private contractor over the life of the contract, typically 25–30 years. In the Budget 2018, the government announced the end of the PFI model (also known as PF2). However, there are still currently more than 700 operational PFI contracts with a capital value of around £60 billion and many of these deals are now starting to come to the end of their contractual terms. As these contracts near expiry, they will need careful management. The government will need to decide on the future use of the asset, for example, whether it should be sold or the service retendered, as well as ensuring that contractual maintenance standards are continued.

04 Delivering 2020 Spending Review

In March 2018, the then Chancellor announced that HM Treasury would carry out a Spending Review in 2019, to conclude alongside the Budget 2019. In August 2019, the incoming Chancellor announced that a one-year Spending Round would be completed in September and a multi-year Spending Review carried out in 2020. Our report on Spending Review 2015 found that the process was largely bilateral, which worked well as a control on departmental spending but prevented the Spending Review from maximising the value for money. The Spending Review will be an important test of the improvements the Cabinet Office and HM Treasury have made and how far these have gone towards creating a framework that balances short-term spending control and achieving long-term value for money. It has the potential to be the most challenging in recent times with departments calling for budget increases after years of austerity and given the significant uncertainty about the fiscal impact of leaving the EU. At the same time, Parliament is demanding greater transparency of government's spending choices.