A Short Guide to HM Treasury
About this guide and contacts

This Short Guide summarises what HM Treasury does, how much it costs, recent and planned changes and what to look out for across its main business areas and services.

If you would like to know more about the National Audit Office’s (NAO’s) work on HM Treasury, please contact:

Elaine Lewis
Director – HM Treasury
Email: Elaine.Lewis@nao.gsi.gov.uk
Phone: 020 7798 7906

Simon Reason
Director – Corporate Finance
Email: Simon.Reason@nao.gsi.gov.uk
Phone: 020 7798 7738

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

Email: parliament@nao.gsi.gov.uk
Phone: 020 7798 7665

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. 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 £734 million in 2016.
Overview

- Key facts
- About HM Treasury
- Accountability to Parliament
- Where the Department spends its money
- Managing the public finances
- HM Treasury's balance sheet
- Major programmes and developments
- Exiting the European Union

Long-term sustainability of public finances
Managing legacy issues on the balance sheet
Oversight of financial regulators
Appendices
Key facts

1.4% The forecast rate of economic growth.

71% Shareholding in RBS at 31 March 2017. All shares in Lloyds sold by May 2017.

3.1% inflation In November 2017, above the Bank of England’s target level of 2%.

£1,727 billion public sector net debt at 31 March 2017 (excluding public sector banks).

£45 billion public sector net borrowing during 2016-17.

4.3% rate of unemployment In September 2017, down from 4.8% in September 2016.

UK Government Investments Established in April 2016 to consolidate government’s management of shareholdings and corporate finance expertise.

£1.4 billion HM Treasury group operational costs in 2016-17.

£117 billion HM Treasury group assets as at 31 March 2017.

£4 billion HM Treasury group liabilities as at 31 March 2017.

24% Planned reduction in HM Treasury’s overall resource spending by 2019-20, as set out in the Spending Review 2015.
HM Treasury (the Department) is the government’s economic and finance ministry, maintaining control over public spending, setting the direction of the UK’s economic policy and working to achieve strong and sustainable economic growth. As a department, it is also responsible for:

- **public spending policy** (including departmental spending);
- **financial services policy** (including banking and financial services regulation);
- **strategic oversight of the UK tax system** (including, for example, income tax, personal allowance and national insurance);
- **ensuring the economy is growing sustainably**;
- **setting guidance** for accountability and financial reporting in government departments; and
- **the production of the Whole of Government Accounts (WGA)**, consolidating the audited accounts of more than 6,000 organisations across the UK public sector, including central and local government.

### The Department’s objectives

1. **Place the public finances on a sustainable footing.**
   - Measured through a range of indicators, including, for example:
     - **Public sector net borrowing (PSNB)** as a percentage of Gross Domestic Product (GDP).
     - **Public sector net debt (PSND)** as a percentage of GDP.

2. **Ensure the stability of the macro-economic environment and financial system, enabling strong and sustainable growth.**
   - **GDP growth per quarter** (compared to prior year).
   - **Consumer Prices Index (CPI)** inflation.
   - **Business investment** as a share of GDP.

3. **Increase employment and productivity, and ensure strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms.**
   - **UK employment rate.**

4. **Build a great Treasury where staff are professional and expert in the way they work with ministers, stakeholders and with each other, and all staff are valued.**
   - **Annual staff survey.**

The latter half of this guide considers HM Treasury’s external-facing objectives, particularly the public finances and financial system. It focuses on the most high-profile areas of recent years:

- long-term sustainability of public finances;
- managing legacy issues on the balance sheet; and
- oversight of financial regulators.

The guide covers staffing (HM Treasury’s fourth objective) in the Appendices (pages 32–36).

The guide also considers Brexit, in the context of HM Treasury’s role and the impact on its areas of responsibility.
The Permanent Secretary and Accounting Officer (AO) for HM Treasury is personally accountable to Parliament for managing the Department, its use of public money and its stewardship of assets as set out in Managing public money. AOs can ask for a ministerial direction (a formal instruction) from a minister to proceed with the implementation of a policy where the AO is concerned that the spending involved does not meet the tests of regularity, propriety, value for money and/or feasibility. The AO for HM Treasury has not requested a ministerial direction since 2009 when they sought a direction before proceeding with the Asset Protection Scheme, designed to protect the Royal Bank of Scotland’s assets against financial losses.

The Treasury Select Committee is an important part of the accountability mechanism as it examines the expenditure, administration and policy of HM Treasury and associated public bodies, including the Bank of England and the Financial Conduct Authority.

All departments are also now required to publish an Accounting Officer System Statement to outline how the AO gains assurance over its use of taxpayer’s money. HM Treasury’s system statement can be found here. In its role as the overall guardian of accountability for taxpayers’ money, HM Treasury sets the overall framework for AO accountability and provides clarity about expectations on AOs. It issues ‘Dear Accounting Officer’ letters to provide specific advice on issues of accountability, regularity and propriety which supplement Managing public money.

### Essentials of accountability

| A clear expression of spending commitments and objectives | Our report on the [HM Treasury’s Spending Review 2015](https://www.gov.uk/government/publications/hm-treasurys-spending-review-2015) commented that settlement letters had limited information on how performance would be monitored or how funding had been allocated to objectives. HM Treasury, along with the Cabinet Office, is working to improve the link between financial management and performance. The refresh of Single Departmental Plans later in 2017 will provide the basis for discussions on delivery and spending control. |
| A mechanism or forum to hold to account | In 2016, the NAO reported on Accountability to Parliament for taxpayers’ money. A key finding was that the incentives on government AOs to prioritise value for money are weak compared to those associated with the day-to-day job of satisfying ministers. We recommended that HM Treasury do more to develop a strong culture of accountability within government. In response, HM Treasury has updated its guidance for AOs, requiring each department to publish an AO System Statement and AO assessments for major projects. |
| Clear roles and someone to hold to account | Our report on [financial assets](https://www.gov.uk/government/publications/government-accounts-technical-manual) noted that sales had been managed by different organisations without an overarching government strategy. By creating UK Government Investments, the government has consolidated its management of shareholdings and corporate finance expertise. |
| Robust performance and cost data | The Whole of Government Accounts (WGA) is the largest consolidation of public sector accounts in the world. There is no more complete record of what the government owns, owes, spends and receives. Following our reports in 2016, HM Treasury has begun to enhance the disclosures in the accounts to help explain significant movements on the balance sheet and show how the government is managing the public finances, particularly around financial assets, public sector pensions and provisions, contingent liabilities and guarantees. |
Where the Department spends its money

HM Treasury’s accounts are dominated by the balance sheet, where assets and liabilities are recorded. A lot of movements in the accounts each year relate to changes in the market value of underlying assets and liabilities (for example, share prices). In comparison to these movements and the income from recent asset sales, HM Treasury’s spend on its operations (£1.4 billion in 2016-17) is relatively small.

Future spending


This reduction is expected to take place in the final two years of the Spending Review period. HM Treasury reported these savings would be achieved through:

- reduced running costs through back-office contract renegotiations, such as telephony contracts; and
- seeking additional income from the use of its building.
Managing the public finances

As the government department with overall responsibility for public spending, one of HM Treasury’s main objectives is to place the public finances on a sustainable footing.

**Key measures for assessing the sustainability of the public sector finances**

**Public sector net borrowing (PSNB)**

When the government spends more than it receives in tax and other revenues in a financial year it is in deficit. This is often described as the public sector deficit. The government funds this deficit through borrowing.

The UK economy went into recession in 2008, leading to interventions in the British banking system and increases in public sector net borrowing and public sector net debt.

In order to place the UK’s public finances on a financially sustainable footing, HM Treasury has prioritised the reduction of PSNB and public sector net debt.

In 2016-17 PSNB was £45 billion, equivalent to 2.3% of GDP.

The Office for Budget Responsibility (OBR) forecasts that PSNB will fall to £32.8 billion (1.5% of GDP) in 2020-21, decreasing to £30.1 billion (1.3% of GDP) in 2021-22.

---

**Public sector net borrowing**

£ billion

<table>
<thead>
<tr>
<th>Year</th>
<th>PSNB (billion)</th>
<th>PSNB (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>180</td>
<td>10.0</td>
</tr>
<tr>
<td>2008-09</td>
<td>160</td>
<td>8.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>140</td>
<td>6.0</td>
</tr>
<tr>
<td>2010-11</td>
<td>120</td>
<td>4.0</td>
</tr>
<tr>
<td>2011-12</td>
<td>100</td>
<td>2.0</td>
</tr>
<tr>
<td>2012-13</td>
<td>80</td>
<td>1.5</td>
</tr>
<tr>
<td>2013-14</td>
<td>60</td>
<td>1.3</td>
</tr>
<tr>
<td>2014-15</td>
<td>40</td>
<td>1.0</td>
</tr>
<tr>
<td>2015-16</td>
<td>20</td>
<td>0.5</td>
</tr>
<tr>
<td>2016-17</td>
<td>0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Sources: Office for Budget Responsibility, Economic and fiscal outlook, March 2017
Office for National Statistics, Public sector finances, UK, August 2017
Managing the public finances continued

Public sector net debt (PSND)

Debt is the total amount owed by the government which has built up from financing past annual deficits. As a result, debt is a much larger sum of money.

This chart shows that PSND excluding public sector banks rose significantly after the financial crisis, from £557 billion (35.5% of GDP) at 31 March 2008 to £1,727 billion (86.8% of GDP) at 31 March 2017.

OBR currently forecasts that, by 2020-21, PSND will fall by 3% of GDP.

Sources: Office for Budget Responsibility, Economic and fiscal outlook, March 2017
Office for National Statistics, Public sector finances, UK, August 2017
UK government position
(Pages 17-20 provide further detail).

Following the financial crisis, the deficit was 10% of gross domestic product in 2009-10 (GDP – the value of all the finished goods and services produced within the UK), the largest deficit since the Second World War. In response, the government put in place a plan to reduce the deficit to return the public finances to a sustainable position. The deficit was 2.3% of GDP at 31 March 2017. In order to continue to reduce the deficit, HM Treasury works with departments across government to identify savings through:

- **spending reviews** – HM Treasury carries out spending reviews to allocate funding across the government’s priorities, set limits on spending and define the main outcomes the public can expect the government to achieve with its resources. Spending Review 2015 set out how £4 trillion of government money will be allocated over five years from 2016-17 to 2020-21. It announced £21.5 billion of spending cuts; and

- by delivering a further £3.5 billion of resource savings in 2019-20, supported by an Efficiency Review. This review also aims to embed a culture of efficiency across government so that incremental improvements in public service delivery are made each year to maximise value for money for taxpayers.

HM Treasury also plans to use **Single Departmental Plans** to improve government’s ability to track performance and spend, link inputs to outputs and identify risks to value for money.

Several resources are available to the government and Parliament which report on public finances:

<table>
<thead>
<tr>
<th>Reporting on the financial sustainability of the public finances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Whole of Government Accounts (WGA)</strong> produced by HM Treasury</td>
</tr>
<tr>
<td>The WGA is a consolidated account of more than 6,000 organisations across the public sector. It shows what the UK government spends and receives, and what it owns and owes, giving Parliament and the public the ability to hold HM Treasury to account for the government’s financial position.</td>
</tr>
<tr>
<td>The NAO website provides an interactive visualisation of the financial information contained within the WGA – an extract is provided above.</td>
</tr>
<tr>
<td><strong>Office for National Statistics (ONS)</strong></td>
</tr>
<tr>
<td>The government’s fiscal policy and targets for the deficit and debt are based on statistical measures reported in the ONS annual National Accounts and in its monthly bulletin on public sector finances.</td>
</tr>
<tr>
<td><strong>Office for Budget Responsibility (OBR)</strong></td>
</tr>
<tr>
<td>Provides twice-yearly independent economic and fiscal forecasts and biennial reports on fiscal risks (from July 2017) as well as long-term sustainability of the public finances.</td>
</tr>
</tbody>
</table>
A departmental balance sheet outlines the department’s overall financial position and comprises its assets and liabilities. Assets are something that the department owns and will receive a benefit from in the future, for example, IT equipment that staff will use for a number of years. Liabilities are the financial obligations that the department has incurred but has not yet settled, for example invoices that need to be paid.

HM Treasury's balance sheet, prior to the financial crisis, was straightforward and relatively small in line with other policy departments. Following the financial crisis, HM Treasury intervened in the British banking system and provided assistance to a number of financial institutions. As a result of those interventions the government holds shares in the Royal Bank of Scotland as well as residual assets from interventions in Northern Rock and Bradford & Bingley, which are managed by UK Asset Resolution (UKAR). The government sold its final shares in Lloyds Banking Group in May 2017. These interventions impacted the balance sheet as related new assets and liabilities were recorded. The majority of these are classified as ‘financial instruments’ in accounting terms. Pages 21–25 provide more detail on how the government is managing these legacy issues.

At around the same time, a programme of quantitative easing was started. Quantitative Easing (QE) is an unconventional form of monetary policy where a central bank (in the UK's case the Bank of England) creates new money electronically to buy financial assets, such as government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target. The support HM Treasury has provided to the Bank of England’s quantitative easing programme, termed a derivative, has a significant impact on HM Treasury’s balance sheet due to its size and sensitivity to the prices of the underlying assets. See the Bank of England website here for more details.

A lot of the movements in HM Treasury’s accounts relate to market value changes in the underlying assets and liabilities (for example, share prices). These are known as ‘fair value movements’. The pie chart below shows the value of HM Treasury’s assets as at 31 March 2017, which totalled £117 billion. Liabilities at the same date on the balance sheet totalled £4 billion. However, some liabilities, belonging to HM Treasury, which are dependent on uncertain future events, are not included in the balance sheet but are instead disclosed in the notes to the accounts. These are known as ‘contingent liabilities’ and ‘remote contingent liabilities’ and represent a significant and increasing potential cash outflow for HM Treasury Group. The contingent liabilities include, for example, warranties and indemnities relating to a portfolio of UKAR’s Bradford & Bingley mortgage assets sold in March 2017 and any losses through acts of terrorism which exceed the reserves of the mutual reinsurance companies set up to provide cover. Remote contingent liabilities include, for example, potential exposure on guarantee schemes (UK Guarantees Scheme maximum potential liabilities estimated at £1.1 billion as at 31 March 2017).
HM Treasury’s balance sheet continued

HM Treasury Group assets at 31 March 2017

- Asset purchase facility (BEAPFF) £51.2 billion
- Other assets £14.0 billion
- UKAR mortgage assets £19.5 billion
- Proceeds from mortgage asset sales £11.4 billion
- Shares in RBS and Lloyds £21.4 billion

Note
1 Bank of England Asset Purchase Facility Fund.

Source: HM Treasury, Annual Reports and Accounts 2016-17, July 2017

HM Treasury Group liabilities at 31 March 2017

Source: HM Treasury, Annual Reports and Accounts 2016-17, July 2017

- Balance sheet liabilities
- Contingent liabilities
- Remote contingent liabilities

- Liability
- Unquantifiable liability
- Unknown total value
Overview

Major programmes and developments

Fiscal policy and events

Autumn Statement 2016

The Chancellor announced that HM Treasury would move to one fiscal event per year – an Autumn Budget - with the aim of providing more stability for businesses and individuals. The first Autumn Budget will be delivered in November 2017.

Fiscal rules

Following the decision to leave the EU in June 2016, the Chancellor amended the fiscal rules to focus on returning "the public finances to balance at the earliest possible date in the next Parliament”.

Infrastructure

National Productivity Investment Fund (NPIF)

The NPIF was established in 2016 to provide £23 billion of high-value investment in public services between 2017-18 and 2021-22. It is focusing on priority areas that are critical for improving the UK’s productivity including: economic infrastructure, housing and research and development.

UK Guarantees Scheme

HM Treasury is also expanding the UK Guarantees Scheme to offer construction guarantees for complex projects to help reduce risks and increase access to private finance.

National Infrastructure Commission (NIC)

The NIC was permanently established in January 2017 to provide impartial, expert advice and make independent recommendations to the government on economic infrastructure.

Exiting the EU

HM Treasury’s role

As the government’s economic ministry, HM Treasury is responsible for significant EU-exit priorities such as fiscal implications and stability, financial services and, together with HMRC, customs. A successful exit from the EU is a major priority for HM Treasury.

HM Treasury’s aim is to support the government in its decisions and actions in exiting the EU; securing the best possible outcome for the nation while preparing the economy to be resilient as we exit the EU. As the finance ministry, HM Treasury will need to negotiate revisions to spending settlements with other departments in light of leaving the EU. (Further details are included on pages 14-15.)

Key personnel changes

Permanent Secretary to HM Treasury

In July 2016 Tom Scholar – a former second Permanent Secretary at HM Treasury, and, most recently, principal adviser on the European Union – became Permanent Secretary of HM Treasury.

Head of Government Finance

Following the 2013 Financial Management Review, the roles of Head of Government Finance Profession, held by a director general of finance in one of the major spending departments, and the Director General of Public Spending in HM Treasury were combined in order to strengthen financial leadership.

In May 2017, Julian Kelly stood down from this role. As HM Treasury considered the financial management programme had evolved, it decided to split the role: James Bowler was appointed as Director General of Public Spending, while Mike Driver, Chief Financial Officer at the Ministry of Justice, has taken on the Head of Government Finance Function role to provide departmental experience. To maintain the link between the two roles, Mike sits on the HM Treasury Board and Treasury Board sub-committee.
Exiting the European Union

**Departmental impact**

Contributing to the UK’s negotiations on exiting the EU and assessing their potential impact on the UK, including domestic implementation of some of the consequences of exiting the EU, has placed significant resourcing strain on HM Treasury. The non-executive board members at HM Treasury have decided that its resourcing and reward strategy needs to be “sufficiently flexible” to accommodate and reflect the added pressure on the Department. To achieve the best outcomes, HM Treasury recognises it will need sufficient high-quality, skilled officials.

HM Treasury carried out a reprioritisation exercise in 2017 to make sure the right resources were in place to meet the Department’s objectives and to respond to the additional work required by the exit process. It created a new role of Director for EU Exit Planning to oversee the preparations for the domestic consequences of exit and coordinate HM Treasury’s work.

It also made several changes to team and group structures: setting up new teams on Customs and Trade policy as well as a Financial Stability EU team.

**Wider impact**

1 Fiscal implications and stability

Current forecasts for the UK economy reflect the degree of uncertainty around the impact of exiting the EU. This will depend on the negotiated exit settlement and trade agreement reached, the effect of sterling depreciation as well as the subsequent reaction of households and business. The knock-on effect on public finances, particularly tax revenue and government spending is equally unknown.

Making the case for stronger growth to ensure public sector sustainability, the Chancellor of the Exchequer has:

- stressed the importance of UK businesses’ ongoing access to European Investment Bank funding while the UK remains an EU member and a relationship which continues after leaving the EU; and
- committed to expanding the support available to capital funding in the UK by:
  - expanding the UK Guarantee Scheme to include construction guarantees; and
  - raising the limit which the British Business Bank can invest in venture capital funds to 50%.

2 Financial services

Exiting the EU will have significant implications for the financial services regulatory framework, for which HM Treasury is responsible, including:

- planning for the transfer of EU law into UK law via the EU Withdrawal Bill and ensuring the UK law works after EU exit; and
- ensuring that the UK financial services sector’s ability to provide cross-border banking and investment services in EU member states continues.

3 Working with other departments

Supporting a joined-up approach across government during negotiations has been a priority. HM Treasury has said that it is working closely with:

- HMRC on the tax, customs and EU tariffs aspects of exiting the EU; and
- the Department for Exiting the EU and the Department for International Trade, as well as other departments.
Exitting the European Union continued

What are the issues to explore?

Across government the NAO considers that a successful implementation of Brexit will require:

- strong collaboration and coordination across departments;
- a clear sense of prioritisation at departmental and cross-departmental level, including decisions to stop or delay projects; and
- a robust assessment of the required capability and a cross-government strategy to address any gaps.

If the Treasury Committee chooses to examine how HM Treasury is organising itself to deliver a successful EU-exit, it may wish to explore the following issues:

### Coordination across government

Departments should be clear about how the actions they are taking align with plans across government to deliver a successful EU-exit. HM Treasury, with the Department for Exiting the European Union (DExEU) and the Cabinet Office, should clarify with departments their respective roles and responsibilities.

### Prioritisation of activities

Departments will need to prioritise their activities in response to EU-exit. We would expect this to involve stopping or deferring some activities. The activities that are prioritised will need to incorporate a strong emphasis on delivery as well as policy. HM Treasury, with DExEU and the Cabinet Office, will also need to take a cross-departmental view on where resources need to be prioritised and redeployed and what this means for departmental spending plans.

### Staffing and resources

Departments will need to have assessed what skills and resources are needed to deliver a successful EU-exit in the short- to medium-term. Filling any gaps may mean recruiting staff externally, and moving staff across government to where they are needed most. HM Treasury also needs to work with Cabinet Office, Civil Service Human Resources and the professional functions across government, to ensure a clear strategy for funding any change in capability requirements.
Long-term sustainability of public finances

- How is this being achieved?
- Recent and planned developments
- What are the things to look out for?
How is this being achieved?

One of HM Treasury’s main objectives is to place the public finances on a financially sustainable footing.

As discussed on page 7, there are two measures which the government uses to assess the public finances: public sector net borrowing (PSNB), also known as the deficit, and public sector net debt (PSND). These are important targets in order to meet the government’s fiscal mandate to “return the public finances to balance at the earliest possible date in the next Parliament”.

<table>
<thead>
<tr>
<th>Interim targets</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>To reduce the cyclically adjusted deficit to below 2% of gross domestic product (GDP) by 2020-21</td>
<td>Current 2016-17: 2.2% <strong>OBR forecast 2020-21: 1.3%</strong></td>
</tr>
<tr>
<td>To ensure that PSND is falling as a share of GDP in 2020-21</td>
<td>N/A <strong>Fall of 3% of GDP relative to 2019-20</strong></td>
</tr>
</tbody>
</table>

To meet these targets, HM Treasury has to manage a range of risks and uncertainty around its revenue and spending, all of which are affected by changes in the economy or government policy:

- **Level of income from tax receipts**
- **Level of public sector spending**
- **Balance sheet impact on income and spending**—for example, income from asset sales and liabilities crystallising

**Treasury oversight**

HM Treasury monitors risks to achieving this objective through its Fiscal Risk Group (a sub-group of the Executive Management Board).

In response to recommendations from the Committee of Public Accounts, the International Monetary Fund (IMF) and the NAO, HM Treasury has been allocating more resources to analysing the balance sheet and evaluating fiscal risks. Since late 2016, it has:

- created a new balance sheet analysis branch and a Balance Sheet Group, which brings together analysis to report to the Fiscal Risk Group;
- strengthened the budgetary and approvals process around contingent liabilities and guarantees; and
- introduced two further fiscal measures with the aim of providing a more complete picture of the public sector balance sheet (public sector net financial liabilities and PSND excluding assets and liabilities held by the Bank of England).
Recent and planned developments

**Level of income from tax receipts**

Taxation makes up 85% of total public sector income but is driven by economic performance. Taxation revenue increased by 5% in 2015-16 compared with the prior year, primarily due to an increase in the overall level of activity in the economy, resulting in higher employment and higher wages.

The OBR has identified the following revenue risks:

- loss of revenue from behavioural and technological changes, such as rising fuel efficiency and the declining trend in smoking;
- decline in oil and gas revenues and future repayments associated with decommissioning costs;
- tax avoidance, evasion and other forms of non-compliance;
- falling effective tax rates from changing employment patterns, such as the rise in self-employment and incorporations;
- policy risks such as planned changes to national insurance contributions for the self-employed, announced in Budget 2017 and subsequently scrapped; and
- a concentration of tax receipts from people with relatively high incomes and/or buying or selling high-value assets.

**Levels of public sector spending**

**Demand pressures:** With an ageing population and health-specific cost pressures, OBR forecasts that primary public spending will rise by 8% of GDP – equivalent to £156 billion, due to:

- spending increases in health and long-term care; and
- State pensions (despite assumed future increases in the State Pension Age).

Public sector pension costs are likely to decrease due to reductions in the public sector workforce and reforms to pension schemes.

**Spending control:** HM Treasury has continued to prioritise spending control and is reviewing departmental spending plans and priorities in light of the decision to leave the EU.

HM Treasury leads on delivering £3.5 billion of savings from the Efficiency Review (page 10) across government in 2019-20, with the option to reinvest £1 billion in priority areas. The work will be aligned with the refresh of Single Departmental Plans, so that departments can consider savings options in the context of their business planning.
Recent and planned developments continued

**Balance sheet impact on income and spending**

The government’s provisions and contingent liabilities have been on an upwards trend in recent years. Most recently, the revised discount rate used to value future liabilities has increased the value of provisions – accounting for 96% (£125 billion) of the increase reported in WGA 2015-16.

**Table: Provisions and Contingent Liabilities**

<table>
<thead>
<tr>
<th></th>
<th>31 March 2015 (£bn)</th>
<th>31 March 2016 (£bn)</th>
<th>31 March 2015 (£bn)</th>
<th>31 March 2016 (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nuclear decommissioning</td>
<td>82.9</td>
<td>181.7</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Clinical negligence</td>
<td>29.3</td>
<td>57.6</td>
<td>14</td>
<td>26.7</td>
</tr>
<tr>
<td>Decommissioning oil and gas fields</td>
<td>7.5</td>
<td>6.9</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Tax disputes</td>
<td>7.2</td>
<td>5.9</td>
<td>35.6</td>
<td>49.1</td>
</tr>
<tr>
<td>Other</td>
<td>48.4</td>
<td>53.4</td>
<td>26.8</td>
<td>28.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>175.3</strong></td>
<td><strong>305.5</strong></td>
<td><strong>76.4</strong></td>
<td><strong>104.3</strong></td>
</tr>
</tbody>
</table>

**Guarantees**

To stimulate parts of the economy and address market failures, the government has made increasing use of guarantee schemes in recent years, which could generate additional liabilities in the future. In some cases, this has replaced direct spending. At 31 March 2017, the government’s maximum exposure for guarantees issued on its most significant schemes was around £20 billion.

HM Treasury has provisionally agreed to guarantee up to £2 billion in 2018 of bonds issued to finance construction of Hinkley Point C nuclear power station. Certain conditions must be met by December 2018 and the initial bonds repaid by the end of 2020.

The UK Guarantees Scheme is being extended to offer ‘construction guarantees’ to help complex infrastructure projects.
What are the things to look out for?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Risks and challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term incentives</td>
<td>Pressures on spending and revenue, along with the government’s key fiscal targets, could encourage short-term decision-making, which might undermine public finances in the longer term. This includes assets that are not ready to be sold, or with precarious value-for-money criteria. Our report on the Spending Review 2015 found that funding decisions and consideration of the impacts were focused on the Spending Review Period rather than the longer term. As HM Treasury takes forward efficiency plans and reprioritises and reconsiders departmental spending plans, in response to leaving the EU, it will be important that the government takes a longer-term view and links resources to performance.</td>
</tr>
<tr>
<td>Transparency</td>
<td>The Committee of Public Accounts report on the Government Balance Sheet recommended HM Treasury find a way in the WGA to provide clarity over how the government uses different sources of information on the government’s financial position (for example, WGA and ONS measures) to manage the public finances.</td>
</tr>
<tr>
<td>Risk profile</td>
<td>The public finance landscape has become more complicated as the range and volatility of assets and liabilities that the government has to manage alongside its spending commitments have increased. Government’s exposure is concentrated in particular sectors such as housing, banking and student finance, all of which are correlated with the wider performance of the economy, such as the employment market, interest rates and inflation. This increases the risks to the public finances as the same factors affect the government’s income from taxation; and are subject to policy interventions. Guarantees, in particular, expose the government to significant potential liabilities in the future. Because they tie the public sector finances to the risk of borrowers defaulting on loan repayments, there is a risk they could crystallise at once in the event of a major economic shock. Expanding the UK Guarantees Scheme to offer construction guarantees has the potential to increase the risk profile further and will need to be closely monitored. The associated risks and benefits to the UK’s public finances, and how the government is managing them, is discussed further in the NAO’s Evaluating the government balance sheet reports.</td>
</tr>
<tr>
<td>Capability</td>
<td>As recommended in the NAO report on The first sale of shares in Royal Bank of Scotland, government needs to consider how it will maintain the corporate finance and capital markets expertise of UK Financial Investments once the work to return the bank to the private sector reduces. The government has also started to identify and plan for the capability needs of exiting the EU across departments as reported in the NAO’s Capability in the civil service report. In summer 2016, the Cabinet Office conducted a cross-government EU-exit capability review and found that 12 of the 17 then main departments identified a ‘considerable’ or ‘significant’ impact to their capability in policy, operational and specialist skill areas. The resourcing and sector expertise of HM Treasury spending teams will be particularly important in identifying and escalating emerging issues which could impact on public finances.</td>
</tr>
</tbody>
</table>
Managing legacy issues on the balance sheet

- How is it delivered?
- Recent and planned developments
- What are the things to look out for?
Government’s financial assets

In 2015-16, the government’s financial assets, excluding cash, totalled £373 billion, equivalent to just over 20% of its total assets, which were worth £1,742 billion including property owned by the government. These assets are largely the result of the legacy of the financial crisis, that is mortgage books, financial institutions and the quantitative easing derivative (see page 11 for further details).

HM Treasury’s role

HM Treasury has overall ownership and responsibility for managing the government’s financial assets acquired during the financial crisis.

Through UK Government Investments (UKGI) and UK Financial Investments (UKFI), HM Treasury has created a centre of excellence in government to manage these assets as well as financial assets that were not a direct response to the financial crisis (for example, British Business Bank and UK Export Finance), and the government’s shareholding in a large range of non-financial corporate assets (such as C4C, Post Office and Urenco).

The Bank of England is the central bank of the UK, independent of government and responsible for maintaining monetary and financial stability. A subsidiary of the Bank, the Bank of England Asset Purchase Facility Fund (BEAPFF), was set up to manage the Asset Purchase Facility Fund (the vehicle through which quantitative easing is delivered).
Recent and planned developments

Management of state-owned financial assets

The government has sold or plans to sell financial assets taken on during the financial crisis, where there is no policy need to hold them on a value-for-money basis. The most significant sales to date have been the complete disposal of all Lloyds shares, an initial sale of its holding in the Royal Bank of Scotland (RBS) and sales of mortgages held by UKAR.

Movements in the value of state-owned financial assets recorded on HM Treasury’s balance sheet can be explained by both fluctuating share prices as well as sales, returning the assets to the private sector.
Banks

The government’s intervention in the British banking system included significant investment in both Lloyds and the Royal Bank of Scotland. This aimed to protect customer deposits and allow the banks to maintain lending to businesses and homeowners and eventually return the banks to private ownership.

In May 2017, Lloyds was returned to private ownership. RBS is still majority-owned by the government. A £2.1 billion sale of RBS shares (representing 5.4% of the bank, with 71% ownership still held by HM Treasury) in 2015 is the only sale to date. The NAO concluded that this sale, which was executed at a price that was £1.9 billion less than the cost for those shares, provided value for money for the taxpayer within the context of the government’s policy to sell.

UKAR

In November 2015, UKAR sold Northern Rock legacy assets, reducing government debt by £13.3 billion. These legacy assets were a combination of mortgages and unsecured loans and included liabilities consisting of private sector debt. In 2016, the NAO concluded that this sale provided value for money for the taxpayer within the context of the government’s policy to sell.

In March 2017, UKAR announced a further sale of £11.8 billion Bradford & Bingley assets in which they stated that the price achieved was at the upper end of expectations and would deliver value for the taxpayer.

Quantitative easing and the Asset Purchase Facility

Under the direction of the Monetary Policy Committee (MPC) the BEAPFF purchases assets such as gilts and corporate bonds to boost economic activity and meet its target to keep inflation at 2%. The Bank maintains a stock of gilt purchases, of £435 billion. The Bank’s Monetary Policy Committee (MPC) voted to increase the programme from £375 billion to £435 billion in August 2016. The MPC also voted to make up to £10 billion of corporate bond purchases over 18 months and introduced the Term Funding Scheme to encourage banks to pass on bank rate cuts to customers.
What are the things to look out for?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Future developments, risks and challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Asset Resolution</td>
<td>UKAR reported that it raised £11.4 billion as part of its most recent sale in 2017, which involved two Bradford &amp; Bingley plc asset portfolios. UKAR reported that this was the first part of a programme of sales designed to raise sufficient proceeds to repay the £15.7 billion debt from the Financial Services Compensation Scheme. The Office for Budget Responsibility forecast a further £5 billion of sale proceeds for 2018-19. Although UKAR has a strong track record on both timing and scale, all major asset sales are subject to risks around market conditions that may affect whether they go ahead and whether they raise as much as expected.</td>
</tr>
<tr>
<td>Future sales of the Royal Bank of Scotland</td>
<td>The government continues to look for opportunities to dispose of its shares in RBS, but has put on hold further sales until legacy issues are resolved, such as its outstanding litigation cases, before recommencing sales. However, the process of drawing a line under past issues is under way and RBS has agreed a £4.2 billion settlement deal to resolve claims from the United States Federal Housing Finance Agency. It has also recently agreed a deal with the European Commission regarding the bank’s £835 million plan to boost competition in the UK’s small business banking market – a significant milestone towards resolving its State Aid commitments. Although this represents a good step towards solving RBS’s legacy issues, there are still further investigations in progress, most notably those ongoing with the US Department of Justice. While the outcome and ultimate cost to RBS is inherently uncertain, since the share sale in 2015 it has increased its provision for conduct charges substantially and made £12.8 billion of provisions in its 2016 full-year accounts, including £6.8 billion for US mortgages. The impact of this uncertainty may be seen in the share price, which is still trading at approximately half the price HM Treasury paid.</td>
</tr>
<tr>
<td>Bank of England’s gilt purchases</td>
<td>The gilts purchased under the quantitative easing programme expose the public finances to volatility in market prices and interest rates but the strategy and timescales for exiting from it will depend upon the outlook for inflation and the wider economy. As gilts are traded on an active market, the arrangement exposes the public finances to fluctuations in prices and interest rates. The facility is fully indemnified by HM Treasury which means that HM Treasury receives any financial gains and covers any losses made by the BEAPFF over the lifetime of its operations. Although the derivative is currently recorded as an asset on HM Treasury’s balance sheet due to an accumulation of profits over the programme’s life, as the programme unwinds HM Treasury will need to meet any shortfall between the bank loan used to finance the gilt purchases and the value of the gilts held at the time of any sale made. As we outlined in our report on the government’s financial assets, the size of the gilt holding relative to the scale of the market will require any exit to be carefully managed by the Bank of England’s Monetary Policy Committee coordinating with the Debt Management Office to mitigate the risk of disruption to gilt market conditions.</td>
</tr>
</tbody>
</table>
Oversight of financial regulators

- What is financial regulation?
- How is it delivered?
- Recent and planned developments
- What are the things to look out for?
What is financial services regulation?

HM Treasury is responsible for the overall financial services regulatory framework which is designed to make sure the UK financial sector is safe, efficient and effective and consumers are protected. The Bank of England is responsible for maintaining monetary and financial stability.

Why we need financial services regulation

A responsible and well-regulated financial services sector is essential to the success of the UK’s economy. The financial crisis demonstrated that when things go wrong in the financial sector, the impact on the economy can be severe.

How financial services regulation is delivered

Regulation of financial services in the UK is currently delivered through the bodies outlined in the chart opposite. Between them, these organisations:

- **authorise** firms and individuals who wish to operate in the financial services industry;
- **supervise** firms and individuals in order to assess the risks to consumers and markets;
- **develop policy** for financial services regulation, including writing rules with which regulated firms and individuals must comply; and
- **enforce** standards through, for example, fines and redress for affected consumers.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) focus on the firms and individuals operating in the financial services industry while FSCS, FOS and MAS are consumer-focused.
How the financial services regulators operate

Regulators of firms and individuals

The FCA and PRA were established in 2013 in response to the financial crisis (splitting out responsibilities of the Financial Services Authority). Between them, they authorise firms and individuals to operate in the financial services industry and, as shown in the tables below, supervise around 60,000 firms, the majority of which are retail lenders.

Since they were set up, the number of staff employed by FCA and PRA has risen to provide additional front-line staff with a view to enabling more judgement-based and forward-looking regulation. The FCA also took over the regulation of consumer credit in 2014. (2012 FSA employees: 3,439; 2017 PRA: 1,316 and FCA: 3,482 [3,422 excluding the Payment Systems Regulator].

The FCA and PRA intervene where firms are not following the rules. This may mean imposing financial penalties, stopping them from trading or securing redress for consumers. The scale of penalties imposed for misconduct and wrongdoing can vary year on year, depending on the conduct of financial services firms and individuals. The FCA, for example, issued 40 penalties worth more than £1.4 billion in 2014 due to banks’ rigging of foreign exchange markets and the benchmark Libor interest rate. By comparison, to date in 2017, the FCA has issued five penalties worth less than £200 million. Penalties collected by the FCA over and above the agreed enforcement costs are not retained by the FCA but go to the Exchequer. FCA publishes details of fines issued at: www.fca.org.uk/news/news-stories/2017-fines.

Consumer-focused regulators

FOS has also seen a significant increase in staff numbers in recent years as a result of the mis-selling of financial products, growing from 793 staff in 2009 to 3,700 in 2016. Between April 2011 and November 2015, firms paid out £22.2 billion in compensation to more than 12 million customers who had been mis-sold payment protection insurance (PPI).

How the regulators are financed

The regulators are financed through levies on the financial services industry and, in the case of FOS, a combination of case fees and levies. The FCA levies firms in their respective industries (see below tables) and distributes the levy among the regulators. These levies are adjusted annually.
How is it delivered? *continued*

<table>
<thead>
<tr>
<th>Approximate number of Financial Conduct Authority supervised firms by sector (at March 2017)</th>
<th>Number of Prudential Regulation Authority supervised firms and groups (at March 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale financial markets</td>
<td>Banks</td>
</tr>
<tr>
<td></td>
<td>1,650</td>
</tr>
<tr>
<td>Investment management</td>
<td>Building societies</td>
</tr>
<tr>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>Retail investments</td>
<td>Credit unions</td>
</tr>
<tr>
<td></td>
<td>5,850</td>
</tr>
<tr>
<td>Pensions and retirement income</td>
<td>Insurers</td>
</tr>
<tr>
<td></td>
<td>230</td>
</tr>
<tr>
<td>Retail banking</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>1,300</td>
</tr>
<tr>
<td>Retail lending</td>
<td>1,509</td>
</tr>
<tr>
<td>General insurance and protection</td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Exchange Equalisation Account authorised firms not currently allocated to a sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,800</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td></td>
<td>55,830</td>
</tr>
</tbody>
</table>
## Recent and planned developments

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recent and planned developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation for consumers</td>
<td>In March 2017, the FCA introduced a time bar for PPI complaints and will run a communications campaign to encourage consumers affected to come forward before the 29 August 2019 deadline.</td>
</tr>
<tr>
<td></td>
<td>As outlined by the NAO in 2016 through the <em>Financial services mis-selling: regulation and redress</em> report, although complaining directly to the ombudsman is straightforward and free, many consumers who have been mis-sold financial products fail to receive full compensation. This may be because of consumers’ lack of awareness that they have been mis-sold a product or that redress is available. It may also be due to reliance on claims management companies.</td>
</tr>
<tr>
<td>Organisational changes</td>
<td>The Bank of England and Financial Services Act 2016:</td>
</tr>
<tr>
<td></td>
<td>• merged the PRA with the Bank of England from March 2017, with the PRA retaining its operational independence; and</td>
</tr>
<tr>
<td></td>
<td>• expanded the NAO’s role to include value-for-money reviews of the Bank of England for the first time. We published our first report, examining <em>Progress delivering the ‘One Mission, One Bank’ strategy</em> in July 2017, reporting that significant progress has been made. However, embedding cultural change will take time.</td>
</tr>
<tr>
<td></td>
<td>Following an independent review, the government is replacing the Money Advice Service (MAS) with a new, slimmed-down money guidance body which will bring together the functions of MAS, the Pensions Advisory Service and Pension Wise, to be fully operational by autumn 2018 at the earliest.</td>
</tr>
<tr>
<td>Changes in regulation</td>
<td>The PRA and FCA’s ‘Senior Managers and Certification Regime’ was implemented in March 2016. It is designed to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence. It is being extended to all sectors of financial services and should be implemented later in 2018 after a consultation period.</td>
</tr>
<tr>
<td>Exiting the EU</td>
<td>Along with HM Treasury, the regulators are reviewing each piece of EU legislation which they lead on with the aim of establishing a clear and functioning regulatory regime when the UK leaves. The regulators will need to continue to share information, intelligence and best practice with their EU counterparts after exit.</td>
</tr>
<tr>
<td></td>
<td>As outlined above, financial services firms’ ability to provide cross-border banking and investment services in EU member states will depend on the passporting rights obtained during negotiations.</td>
</tr>
</tbody>
</table>
What are the things to look out for?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Risks and challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car financing</td>
<td>Consumers’ use of motor finance has grown rapidly in recent years, with many credit products now available, including Personal Contract Plans: a form of leasing where the driver rarely takes actual ownership of the vehicle but finances its depreciation in the initial years before trading it in for another car. Approximately 80% of new cars are sold in this way. The sustainability of this financing model depends on buoyancy in used car prices. The Financial Conduct Authority (FCA) has expressed concerns about the lack of transparency over these arrangements, potential conflicts of interest and irresponsible lending in the motor finance industry and is undertaking a review of motor finance to identify who uses these products, assess the sales process and the due diligence that finance firms undertake. The Prudential Regulation Authority (PRA) is also asking major lenders to estimate the impact of a fall in used car prices on financial performance and capital.</td>
</tr>
<tr>
<td>Household debt</td>
<td>UK household debt is high and has continued to grow rapidly, leaving households vulnerable to rising inflation and subdued income growth. At the same time, complaints about banking and credit, particularly payday loans, tripled last year (100,000 complaints in 2016-17). Our recent report on Vulnerable consumers in regulated industries concluded that regulators alone have limited powers to solve systemic issues such as affordability and debt, and that regulators and government therefore need to work together better to support vulnerable consumers.</td>
</tr>
<tr>
<td>PPI</td>
<td>By the end of March 2017, the Financial Ombudsman Service (FOS) had received 1.6 million complaints about PPI mis-selling and firms had paid out £26.9 billion to consumers. It is unclear how consumers and claims management companies will react to the August 2019 deadline for PPI claims and the impact this will have on FOS operations or financial services firms.</td>
</tr>
<tr>
<td>Pension freedoms</td>
<td>Pension reforms in 2015 give consumers greater choice over how to use their pension savings but also raise risks that individuals may make financial decisions that are not in their best interests. Consumers may lack affordable advice to make complex decisions and financial services firms could take advantage of customer inexperience to sell inappropriate products. FCA has identified this as a key priority and is carrying out a review of retirement outcomes to assess the impact of reforms on competition in the retirement income market. The new money guidance body, which replaces the Money Advice Service, the Pensions Advisory Service and Pension Wise, will have an important role to help people benefit from the new pensions freedoms.</td>
</tr>
</tbody>
</table>
Appendices

Appendix One – Staff and pay 2016-17

Appendix Two – Key themes from NAO reports during the previous Parliament

Appendix Three – Sponsored public bodies
Appendix One – Staff and pay 2016-17

The majority of staff in HM Treasury Group are located in the core Department, followed by UK Asset Resolution. Its arm's-length bodies are small; for example, the Debt Management Office has 121 staff and the Office for Budget Responsibility has 24 staff.

HM Treasury’s highest-paid executive earns between £200,000 – £205,000 annually. UK Asset Resolution had the highest-paid director of all organisations within HM Treasury Group, earning between £765,000 – £770,000 in 2016-17.

Across HM Treasury Group, there are significant variances in the median pay. These differences are due to the differing pay restrictions on companies and specialist organisations compared to the core Department. The restrictions vary due to the need to attract commercial and private sector skills in order to increase the government’s capability.

## Core Department diversity at 31 March 2017

### Staff gender

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>52%</td>
<td>48%</td>
</tr>
</tbody>
</table>

### Disability

<table>
<thead>
<tr>
<th></th>
<th>Non-disabled</th>
<th>Disabled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>93%</td>
<td>7%</td>
</tr>
</tbody>
</table>

### Ethnicity

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>BAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>82%</td>
<td>18%</td>
</tr>
</tbody>
</table>

## HM Treasury Group average number of persons employed 2016-17

### Staff numbers

<table>
<thead>
<tr>
<th>Department</th>
<th>Core Treasury</th>
<th>DMO</th>
<th>FSCS</th>
<th>GIAA</th>
<th>MAS</th>
<th>OBR</th>
<th>RH</th>
<th>UKAR</th>
<th>UKFI</th>
<th>UKGI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>1,181</td>
<td>121</td>
<td>197</td>
<td>386</td>
<td>131</td>
<td>24</td>
<td>436</td>
<td>456</td>
<td>14</td>
<td>104</td>
<td>3,050</td>
</tr>
</tbody>
</table>

### Pay multiples 2016-17

<table>
<thead>
<tr>
<th>Department</th>
<th>Core Treasury</th>
<th>DMO</th>
<th>FSCS</th>
<th>GIAA</th>
<th>MAS</th>
<th>OBR</th>
<th>RH</th>
<th>UKAR</th>
<th>UKFI</th>
<th>UKGI</th>
<th>Median total remuneration (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>4.4</td>
<td>3.5</td>
<td>5.9</td>
<td>2.56</td>
<td>3.3</td>
<td>3.0</td>
<td>8.6</td>
<td>16.9</td>
<td>5.7</td>
<td>2.4</td>
<td>45,918</td>
</tr>
</tbody>
</table>

### Notes

2. All staff numbers are average full-time equivalent, except for UKGI and FSCS which are average monthly head count and average number of staff respectively.

Source: Individual published accounts
The government has conducted its Civil Service People Survey annually for the past six years. The most recent survey was carried out during November 2016.

The main measure from the People Survey is the employee engagement index, which measures an employee’s emotional response to working for their organisation.

The core department and UK Debt Management Office, HM Treasury’s arm’s-length body, scored higher than the civil service average.

The GIAA has noted considerable gaps in their workforce and is implementing a new People Strategy. It says a key priority of the People Strategy is recruitment to address a significant shortfall in delivery capacity. It has a target to increase its overall staff engagement index by at least five percentage points.

HM Treasury’s engagement is above the civil service benchmark and the Department’s engagement has improved since 2015.

### Attitudes of staff in 2016 compared with 2015 – HM Treasury

<table>
<thead>
<tr>
<th>Key</th>
<th>My work</th>
<th>Organisational objectives and purpose</th>
<th>My manager</th>
<th>My team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results in 2016</td>
<td>83%</td>
<td>89%</td>
<td>73%</td>
<td>85%</td>
</tr>
<tr>
<td>Increase since 2015</td>
<td>-1%</td>
<td>0%</td>
<td>-3%</td>
<td>-2%</td>
</tr>
<tr>
<td>Decrease since 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Learning and development</th>
<th>Inclusion and fair treatment</th>
<th>Resources and workload</th>
<th>Pay and benefits</th>
<th>Leadership and managing change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil service average</td>
<td>75%</td>
<td>83%</td>
<td>68%</td>
<td>80%</td>
</tr>
<tr>
<td><strong>63%</strong></td>
<td><strong>81%</strong></td>
<td><strong>77%</strong></td>
<td><strong>24%</strong></td>
<td><strong>65%</strong></td>
</tr>
<tr>
<td><strong>+3%</strong></td>
<td><strong>-2%</strong></td>
<td><strong>0%</strong></td>
<td><strong>+2%</strong></td>
<td><strong>+1%</strong></td>
</tr>
</tbody>
</table>

| Engagement index 2016 |  |
|-----------------------|--|-----------------|
| HM Treasury 2016 | 74% |
| HM Treasury 2015 | 72% |
| UK Debt Management Office | 64% |
| Government Internal Audit Agency | 48% |

Sources: Civil Service People Survey 2016 and 2015
Appendix Two – Key themes from NAO reports during the previous Parliament

<table>
<thead>
<tr>
<th>Theme</th>
<th>Summary findings</th>
<th>NAO report references</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing the balance sheet</td>
<td>Although the Whole of Government Accounts has the potential to be used to illustrate progress in managing key assets and liabilities with similar risk profiles, measurement difficulties make comparisons problematic. Furthermore, in order to allow Parliament to assess how well HM Treasury is managing balance sheet risks, disclosures need to show the impact that government action is having. HM Treasury is consolidating its approach in some areas, increasing the resources it uses to analyse and report on balance sheet risks. In the 2015-16 WGA, it has provided more insightful narrative information on the public finances, including detailing the major movements in the valuations of assets and liabilities and the impact of changes in the discount rate.</td>
<td>Evaluating the government balance sheet: financial assets and investments  Evaluating the government balance sheet: provisions, contingent liabilities and guarantees  Evaluating the government balance sheet: pensions</td>
</tr>
</tbody>
</table>
| Sales of legacy assets | We have reviewed the government’s sale of assets in multiple reports, with specific detail placed on the roles of UKGI, UKFI and UKAR. The £13 billion sale of former Northern Rock assets as well as the first sale of shares in Lloyds Banking Group and Royal Bank of Scotland reports concluded that the sales were value for money, with UKFI executing the transactions as skilfully as could reasonably be expected. The reports made similar recommendations, with specific emphasis on the capability within government:  
• where departments are required to undertake longer-term projects requiring specialist skills, they should consider hiring experts directly and retaining them in-house; and  
• the government should consider how to maintain the corporate finance and capital markets expertise of UKFI as the stake in, and work on, returning the banks reduces. Subsequently, HM Treasury should consider how to redeploy these skills for the benefit of wider government. | The £13 billion sale of former Northern Rock assets  The first sale of shares in Lloyds Banking Group  The first sale of shares in Royal Bank of Scotland  Capability in the civil service |
| Financial services regulation | We reported that regulators had improved their understanding of vulnerable consumers and made some progress to improve support for them. However, the regulators and the government needed to clearly define roles and objectives as well as prioritise high-impact interventions. Similarly, our review of financial mis-selling highlighted the many activities carried out to detect mis-selling and ensure consumers receive compensation but there were limitations in understanding the cost-effectiveness of different interventions and redress schemes. | Vulnerable consumers in regulated industries  Financial services mis-selling regulation and redress |
Appendix Three – Sponsored public bodies

Links to the website of sponsored bodies/arm's-length bodies, executive agencies and executive non-departmental public bodies

Core Department and agencies
HM Treasury
www.gov.uk/government/organisations/hm-treasury
UK Debt Management Office (DMO)
www.dmo.gov.uk/
Government Internal Audit Agency (GIAA)
www.gov.uk/government/organisations/government-internal-audit-agency
Office of Tax Simplification
www.gov.uk/government/organisations/office-of-tax-simplification
Office of Financial Sanctions Implementation

HM Treasury Group
Office for Budget Responsibility (OBR)
http://budgetresponsibility.org.uk/
Financial Services Compensation Scheme (FSCS)
www.fscs.org.uk/
The Money Advice Service (MAS)
www.moneyadvice.service.org.uk/en
UK Financial Investments Ltd (UKFI)
www.gov.uk/government/organisations/uk-financial-investments-limited
UK Government Investments Ltd (and UKGI Financing plc)
www.gov.uk/government/organisations/uk-government-investments/about
UK Asset Resolution Ltd (UKAR)
www.ukar.co.uk/

HM Treasury UK Sovereign Sukuk plc
Help to Buy Ltd

Infrastructure Finance Unit Ltd
IUK Investments Holdings Ltd
Royal Household Sovereign Grant
www.royal.uk/financial-reports-2015-16
Royal Mint Advisory Committee
www.gov.uk/government/organisations/royal-mint-advisory-committee

Other accounts prepared by HM Treasury
Whole of Government Accounts (WGA)
www.gov.uk/government/collections/whole-of-government-accounts
Central funds
National Loans Fund (NLF)
Consolidated Fund
Contingencies Fund
Exchange Equalisation Account
www.gov.uk/government/collections/hmt-eea

Other HM Treasury-related bodies
Bank of England
www.bankofengland.co.uk/Pages/home.aspx
Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)
www.bankofengland.co.uk/markets/Pages/apf/default.aspx
Prudential Regulation Authority (PRA)
www.bankofengland.co.uk/pra/Pages/default.aspx
Financial Conduct Authority (FCA)
www.fca.org.uk/
Financial Ombudsman Service (FOS)
www.financial-ombudsman.org.uk/
Payment Systems Regulator (PSR)
www.psr.org.uk/
Royal Mint Ltd
www.royalmint.com/
National Savings and Investments (NS&I)
www.nsandi.com/
The Crown Estate
www.thecrownestate.co.uk/
Local Partnerships LLP
http://localpartnerships.org.uk/
Royal Bank of Scotland Group plc
www.rbs.com/
Lloyds Banking Group plc
www.lloydsbank.com/