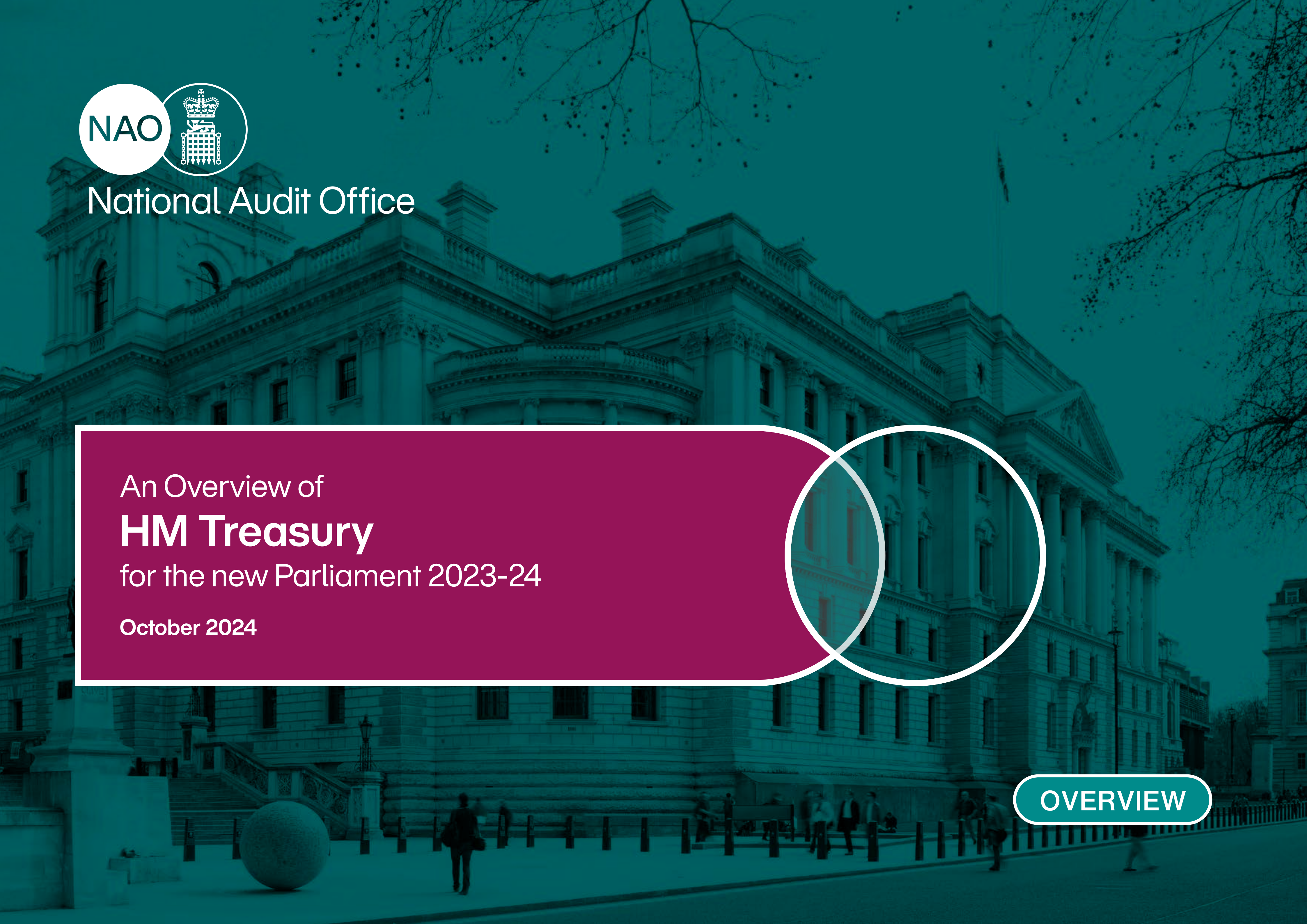

National Audit Office

An Overview of

HM Treasury

for the new Parliament 2023-24

October 2024

OVERVIEW

Contents

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1 Introduction to the National Audit Office

Welcome to our Overview of HM Treasury, part of our series of Overviews for the New Parliament, covering government departments and cross-cutting issues.

The National Audit Office (NAO) is the UK's independent public spending watchdog and is responsible for scrutinising public spending for Parliament. We audit the financial accounts of all departments, executive agencies, arm's-length bodies, some companies and charities, and other public bodies. We also examine and report on the value for money of how public money has been spent.

The NAO is independent of government and the civil service. The NAO's wide remit and unique access rights enables us to investigate whether taxpayers' money is being spent in line with Parliament's intention and to respond to concerns where value for money may be at risk.

We support all Members of Parliament to hold government to account and we use our insights to help those who manage and govern public bodies improve public services. In 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion.

We are funded by, and accountable to, Parliament. As an Officer of the House of Commons, I am committed to ensuring that we support you and your staff in your work as a Member of Parliament, and your scrutiny of public spending and performance.

My dedicated Parliamentary Team can offer you support and put you in touch with our experts on subjects of interest to you and your constituents If you would like more information about our work, or to arrange a briefing with me or one of my teams, please contact our Parliamentary Relations team at parliament@nao.org.uk.

Gareth Davies

**COMPTROLLER & AUDITOR GENERAL
NATIONAL AUDIT OFFICE**

Gareth Davies was appointed Comptroller & Auditor General (C&AG) in June 2019. He was appointed by the Monarch, following the approval of the House of Commons.

The C&AG has statutory authority to examine and to report directly to Parliament on whether government departments and other public sector bodies have spent taxpayers' money in the way Parliament intended. The C&AG and his staff are totally independent of government.

Gareth is a Fellow of the Chartered Institute of Public Finance and Accountancy and a Fellow of the Institute of Chartered Accountants in England and Wales. He is a non-executive Board member of the INTOSAI Development Initiative (IDI), which supports Supreme Audit Institutions (SAIs) in developing countries to sustainably enhance their performance and capacity.

2 How the NAO can help you as a Member of Parliament

How we support Parliament

We produce reports:

- on the annual accounts of government departments and their agencies;
- on the economy, efficiency and effectiveness with which government has spent public money; and
- to establish the facts where there are concerns about public spending issues.

We do not question government policy objectives. We look at how government has spent money delivering those policies and if that money has been used in the best way to achieve the intended outcome.

What we can offer

Through our website or our Parliamentary Relations team, MPs, peers and staff can:

- request a personal briefing on areas of our work that are of interest to them;
- sign up to receive embargoed copies of our reports on subjects of interest;
- make general queries about public spending, or raise concerns with us about value for money; and
- request advice on understanding and scrutinising departments' annual reports and accounts.

Resources available on our website

- **Reports:** Reviews of public spending and how well government is delivering.
- **Insights:** Learning and best practice to help people across government and the wider public sector.
- **Overviews:** Factual overviews of government departments, sectors and services.
- **Work in progress:** Our schedule of future publications.
- **Briefings:** Background information and factual analysis to support Select Committees.

Keep up to date with our work

- Sign up to our latest report updates
- Follow us on X or LinkedIn

How to get in touch

- Via our Parliamentary email inbox: parliament@nao.org.uk.

Auditing the accounts of all government departments and public organisations, helping assure money is being spent the way Parliament intended

Reporting to Parliament on the value for money of how public money has been spent and what has been achieved

Sending you embargoed copies of our reports before they are available to the public

Providing briefings to you or a member of your team on our work

Providing advice and training on examining government departments' annual reports and accounts

Giving evidence to Select Committees

Our fortnightly newsletter with our latest reports and new work

You can write to us with any queries or concerns about the misuse of public money or behaviour in public bodies we audit

3 About this Overview

This report has been produced to provide an introduction to HM Treasury and the NAO's examination of its spending and performance. **It is intended to support the Treasury Committee and Members across the House in their examination of HM Treasury.**

It summarises the key information and insights that can be gained from our examinations of HM Treasury and related bodies in the sector in England and HM Treasury's Annual Report and Accounts. HM Treasury spent over **£38.4 billion in 2023-24**[1] as the government's economic and finance ministry, to maintain control over public spending, set the direction of the UK's economic policy and work to achieve sustainable economic growth.

The report includes:

- the role and remit of HM Treasury;
- how HM Treasury is structured;
- where HM Treasury spends its money;
- spending patterns within HM Treasury;
- HM Treasury's strategic enablers;
- planning and spending across government;
- HM Treasury's priority outcomes;
- financial services regulation;
- what to look out for; and
- where to find more information about the department.

This report updates our previous report, *Departmental Overview: Department for HM Treasury 2019*.

How we have prepared this report

The information in this report draws on the findings and recommendations from our financial audit and value-for-money work, and from publicly available sources, including the annual report and accounts of HM Treasury and its bodies.

We have cited these sources throughout the guide to enable readers to seek further information if required. Where analysis has been taken directly from our value-for-money or other reports, details of our audit approach can be found in the Appendix of each report, including any evaluative criteria and the evidence base used.

Other analysis in the guide has been directly drawn from publicly available data and includes the relevant source as well as any appropriate notes to help the reader understand our analysis.

Other relevant publications

More information about our work on HM Treasury, as well as information about our other recent and upcoming reports can be found on the NAO website.

1 This figure is HM Treasury's net expenditure after tax in 2023-24.

4 About HM Treasury

HM Treasury is the government's economic and finance ministry. Its work reaches everyone in the UK and includes: public spending and financing; setting the strategy for sustainable economic growth; financial services policy; and strategic oversight of the UK tax system. It also plays an important role on the international stage through elements of trade and customs policy, and international cooperation with groups such as the G7 and G20.

The Department had three priority outcomes for 2023-24:

Priority outcome	Department's assessment of its progress against these outcomes in 2023-24	
1 **Place the public finances on a sustainable footing by controlling public spending and designing sustainable taxes**	The government's fiscal rules at the time of publication are to reduce public sector net debt (excluding the Bank of England) as a percentage of gross domestic product (GDP), which was £2,718 billion in 2023-24, within the Office for Budget Responsibility's (OBR) five-year forecast.[1] This is supplemented by a target for public sector net borrowing (known as the deficit) to fall below 3% of GDP within the OBR's forecast.	• Public sector net debt (excluding the Bank of England) reached 89.5% of GDP in 2023-24 and is forecast to fall from its peak of 93.2% in 2027-28 to 92.9% in 2028-29 (in the final year of the OBR's forecast), which would meet the government's fiscal rule.[2] • Public sector net borrowing was 4.5% of GDP in 2023-24, and the OBR forecasts it to fall to 1.2% in 2028-29, which would meet the government's target.
2 **Increase employment and productivity to deliver sustainable economic growth and level up across all parts of the UK**	Progress against key performance indicators include the following. • The productivity per hour index grew by 0.5% over 2023-24 from 107.4 to 107.9, whereas the productivity per worker index fell by 0.1% over the same period from 107.2 to 107.1.[3] • Business investment as a percentage of GDP reached 10.6% in 2023-24 (£240.3 billion), an increase from 10.3% of GDP in 2022-23.	• Economic inactivity, which is the percentage of people aged 16 to 64 who are not in work or seeking work, was 21.8% in 2023-24, the same as in 2022-23. Economic inactivity due to long-term sickness was affecting 2.8 million people in Q4 2023-24, which is 30% of the inactive population.
3 **Ensure the stability of the macro-economic environment and financial system**	Progress against key performance indicators include the following. • The UK was in a technical recession for part of 2023-24, with the economy retracting by 0.1% of GDP in Q2 and 0.3% in Q3. The economy left recession in Q4 with growth of 0.7%. Overall GDP grew by 0.1% in 2023-24.	• The average rate of inflation across 2023-24 was 5.7%, which was a fall from a 40-year average high of 10.0% in 2022-23. Inflation reached 3.2% in March 2024, which is above the government's inflation target of 2%.

Notes

1 The Office for Budget Responsibility published forecasts in its Economic and fiscal outlook – March 2024. The figures quoted for the forecasts come from a different source to the figures in HM Treasury's annual report.

2 The Office for National Statistics (ONS) have published a revised figure for public sector net debt (excluding the Bank of England) of 89.3% in 2023-24. In this overview we are using figures as reported in HM Treasury's annual report and accounts 2023-24.

3 The productivity per hour index is an official statistic produced by the ONS, calculated by dividing Gross Domestic Product (GDP) by the total number of hours worked in the UK, indexed to the first quarter of 2008. The productivity per worker index is also an ONS statistic which is calculated by dividing GDP by the total number of people in work, indexed to the first quarter of 2008.

Source: National Audit Office analysis of HM Treasury, *Annual Report and Accounts 2023-24* and Office for Budget Responsibility, *Economic and fiscal outlook – March 2024*

5 How HM Treasury is structured

Treasury Group is made up of the core department and its arm's length bodies (ALBs), which are a combination of executive agencies, non-departmental public bodies, companies and additional bodies.

HM Treasury also has policy responsibility for several public corporations and non-ministerial departments, which are not consolidated in the Group accounts but support the government's economic and fiscal strategy. Together they form the 'Wider departmental group', which includes the following:

Public corporations

- Bank of England (and its subsidiaries)
- Financial Conduct Authority (FCA)
- NatWest Group plc (and its subsidiaries)
- Crown Estate
- Royal Mint Trading Fund (and its subsidiary)
- Local partnerships LLP
- Financial Services Compensation Scheme (FSCS)

Non-ministerial departments

- Government Actuary's Department (GAD)
- National Savings and Investments (NS&I)
- HM Revenue & Customs (HMRC)

Additional bodies (dual HM Treasury and Cabinet Office reporting):

- Infrastructure and Projects Authority (IPA)
- Public Sector Fraud Authority (PSFA)

Structure of the HM Treasury group as of 2023-24

HM Treasury group includes a combination of public bodies such as executive agencies, non-departmental public bodies (NDPBs), companies and committees

Core department and agencies

Core department	HM Treasury	Office of Financial Sanctions Implementation (OFSI)	
Executive agencies	UK Debt Management Office (DMO)	National Infrastructure Commission (NIC)	Government Internal Audit Agency (GIAA)

Departmental group

Advisory/independent watchdog	Office for Budget Responsibility (OBR)	The Royal Mint Advisory Committee (RMAC)	Financial Reporting & Advisory Board (FRAB)
Government-owned companies	UK Government Investments (UKGI)	UK Asset Resolution Ltd (UKAR)	Reclaim Fund Ltd
	Pool Reinsurance Company Ltd	UK Infrastructure Bank Ltd (UKIB)	
Investment vehicles	IUK Investments Holdings Ltd	HM Treasury UK Sovereign Sukuk plc	
Royal finances	Sovereign Grant		

Source: National Audit Office analysis of HM Treasury Annual Report and Accounts 2023-24

6 Where HM Treasury spends its money

The Bank of England Asset Purchasing Facility Fund (BEAPFF) has been excluded from this chart due to the size of the facility compared with the other largest balance (the net BEAPFF value was £84.3 billion in expenditure whereas the next largest value on the chart would be the total income value of £5.9 billion). See Appendix One for more information and a figure which shows HM Treasury income and expenditure including BEAPFF.

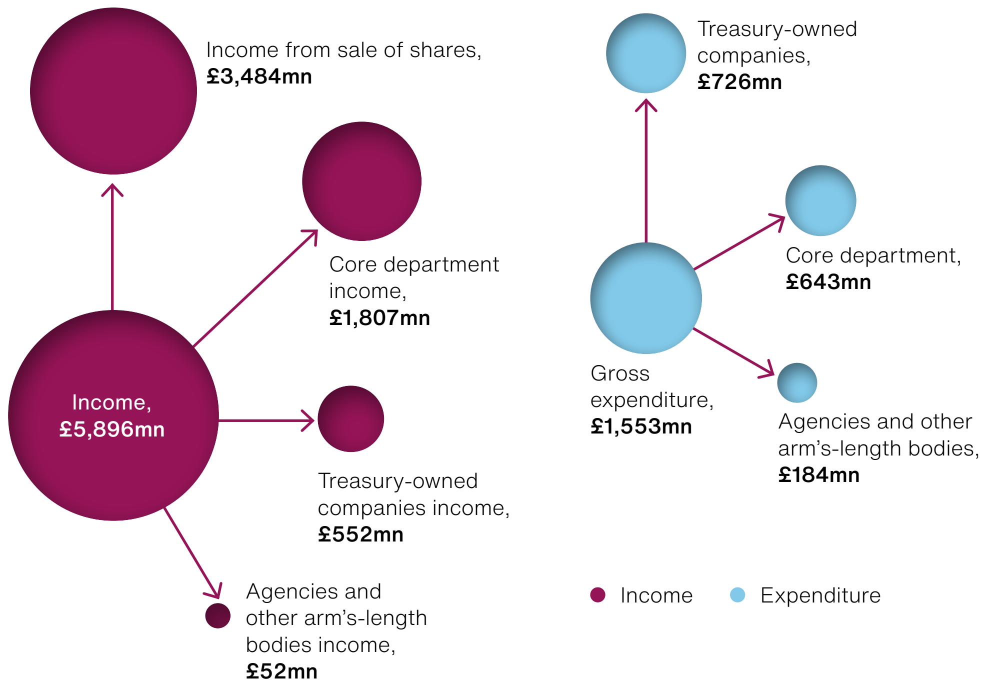
HM Treasury spent £1,553 million in 2023-24. The majority of this was spent by companies owned by the department (£726 million, of which £676 million relates to the UK Infrastructure Bank), closely followed by HM Treasury's core department and agencies spending (£643 million). The department generated £5,896 million in income, the vast majority of which (£3,484 million) comes from sales of government shares in NatWest. The government expects to complete the sale of NatWest shares by 2025-26.

Core department income is driven by movements in the valuation of the provisions, payables and receivables for the EU Financial Settlement, which covers the UK's financial rights and obligations in respect of EU financial operations. The movement in 2023-24 was £1,763 million. A provision is an amount set aside to cover probable future losses. The estimate is highly uncertain for several reasons, including timing differences and foreign exchange rates.

Other income comes from the operations of Treasury ALBs and companies, including Pool Reinsurance (£345 million, see Section 7) and the Reclaim Fund Limited, which administers a scheme for dormant financial assets such as cash in bank accounts (£118 million).

Expenditure among Treasury-owned companies is primarily driven by funding to projects made by the UK Infrastructure Bank. For further detail on HM Treasury Group spending, see Section 9 'Planning and spending across government'.

HM Treasury group income and expenditure, 2023-24



Notes

1 Figures here are the reported outturn as disclosed in terms of Parliamentary supply. As such, figures may differ slightly from those as presented in HM Treasury's financial statements. We reconciled the Statement of Parliamentary Supply to the financial statements as part of our external audit of the Annual Report and Accounts.

2 This chart excludes the Bank of England Asset Purchasing Facility Fund (BEAPFF), which in 2023-24 had £84,833 million in expenditure and £510 million in income. See Appendix 1 for further detail on BEAPFF.

3 'Core department income' refers to income generated by HM Treasury as opposed to arm's length bodies.

4 Totals may not sum due to rounding.

Source: National Audit Office analysis of the Statement of Parliamentary Supply, HM Treasury, *Annual Report and Accounts 2023-24*

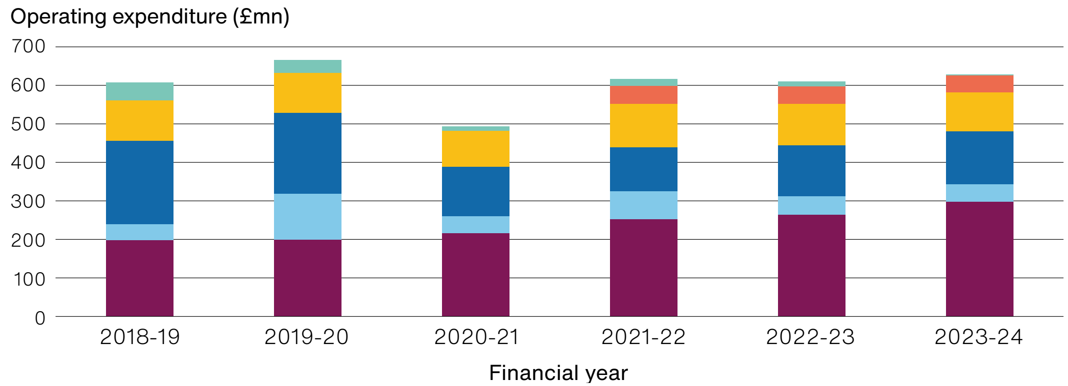
7 Spending patterns within HM Treasury

HM Treasury operational spending in 2023-24 was £628 million, the majority of which was on staff costs, and professional and office services. Other costs across the group include the costs related to coinage manufacturing (£2 million, having reduced from £46 million in 2018-19), and expenses relating to the Royal Household. HM Treasury also has a reinsurance expense at £45 million in its financial statements. The department offers government-guaranteed insurance through Pool Reinsurance Ltd against systemic risks for private insurers, giving them protection from risks which would overwhelm any individual insurer. HM Treasury mitigates the risk with commercial reinsurance.

Spending on professional and office services reduced from £217 million in 2018-19, partly due to costs in those years being higher due to the sale of Northern Rock and Bradford and Bingley loans. Staff costs have increased from £137 million to £297 million both due to the impact of inflation as well as HM Treasury taking on more responsibilities (including around EU transition and COVID-19 support).

HM Treasury Group operational spending since 2018-19

Staff costs are now the largest element of spending, although professional and office services and other goods and services have been a significant proportion of HM Treasury's operational spending in recent years



	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Staff costs	198	199	215	252	263	297
Other operating expenditure	41	120	45	72	49	46
Professional and office services	217	210	129	115	132	138
Other goods and services	105	103	94	114	108	100
Reinsurance expense	0	0	0	45	45	45
Coinage manufacturing	46	33	10	18	12	2

Notes

1 Movements in provisions are included in operational spending in the HM Treasury accounts but have been excluded. This is because they primarily relate to the provision for the EU Withdrawal Settlement, which the Treasury holds on its balance sheet in its role as the finance department but which is unrelated to the day-to-day operations of the department. The overall impact of movements in provisions to increase expenditure by £651 million in 2023-24 and by £3,190 million in 2022-23.

2 'Other goods and services' expenses includes staff training, travel and accommodation, official royal travel and Debt Management Office expenses (including settlement, custodial and brokerage charges and stock listing fees).

3 'Other operating expenditure' includes funding for the Royal Household pensions, depreciation and amortisation, and costs associated with banking and gilts registration.

4 There was no reinsurance expense until 2021-22 as Pool Reinsurance Ltd was not classified as being within the HM Treasury group until then.

Source: National Audit Office analysis of HM Treasury, *Annual Reports and Accounts, 2018-19 to 2023-24*

8 HM Treasury's 'Strategic Enablers'

HM Treasury is responsible for allocating and controlling public spending, overseeing financial services policy, setting the strategy for the UK tax system, delivering infrastructure projects across the public sector and working on achieving sustainable growth for the UK economy. Its role in allocating and controlling public spending involves scrutinising and approving spending outside of departments spending limits with the aim of delivering value for money. It delegates budgets to accounting officers who lead spending departments and sets rules for government financial management. Its spending teams advise HM Treasury ministers on decisions at spending reviews; review and approve submissions for new spending; and monitor departments budgets and spending risks. More information on the planning and spending process can be found in Section 9.

For its other responsibilities, HM Treasury works closely with other parts of government, including the following: regulators, on financial services policy; HMRC, on the tax system; the UK Infrastructure Bank, for infrastructure investment; and other departments, such as the Department for Business and Trade, on growth objectives.

HM Treasury has identified internal reforms and priorities to support it in delivering its responsibilities. These 'Strategic Enablers' are grouped under four key themes:

Workforce, skills and location

HM Treasury is continuing to grow its presence outside of London, with ongoing recruitment to meet a target of 335 full-time equivalent staff at the Darlington Economic Campus by March 2025. A new People Strategy, launched in 2023, focuses on investment in the skills, capability and wellbeing of staff. HM Treasury has also implemented a new corporate strategy called One Treasury, which is aligned with wider civil service plans for modernisation and reform.

Innovation, technology and data

HM Treasury reports that it has focused on developing its technology and data science capabilities. This includes setting up an advanced analytics and data management branch, who has so far worked on developing safe generative artificial intelligence for staff, and new solutions to remove manual data processing and improve automation across the department. HM Treasury also runs a series of training courses for staff to help develop skills in data analysis and technology.

Delivery, evaluation and collaboration

HM Treasury published an evaluation strategy in 2023 which set out its approach to evaluation. This includes an aim for all government policy, programmes and projects to be subject to proportionate evaluations to support decision makers.

Sustainability

HM Treasury reports that it has targeted three main areas to limit its negative impacts on the environment and identify opportunities for positive impact. These are: developing sustainability and climate-related reporting in the public sector; embedding sustainability in policy making; and improving the sustainability of HM Treasury's estate and operations.

9 Planning and spending across government

Annual budgets and multi-year spending reviews determine how the government allocates resources to its policies and to the operation of departments. These form one part of a wider planning and spending cycle, which works alongside a parallel cycle of accountability.

Once funds are allocated, it is the responsibility of HM Treasury and the Cabinet Office to work with public bodies to monitor and evaluate progress against key targets, and to intervene to improve performance where necessary. Departmental Accounting Officers are accountable for these funds to Parliament.

It is the duty of Parliament (including associated bodies such as the NAO), as well as the public, to hold government to account throughout the cycle. This is done through a number of key points, including debates in the House of Commons to approve estimates of government spending, Select Committee scrutiny, and external audit of the annual reports and accounts of public bodies.

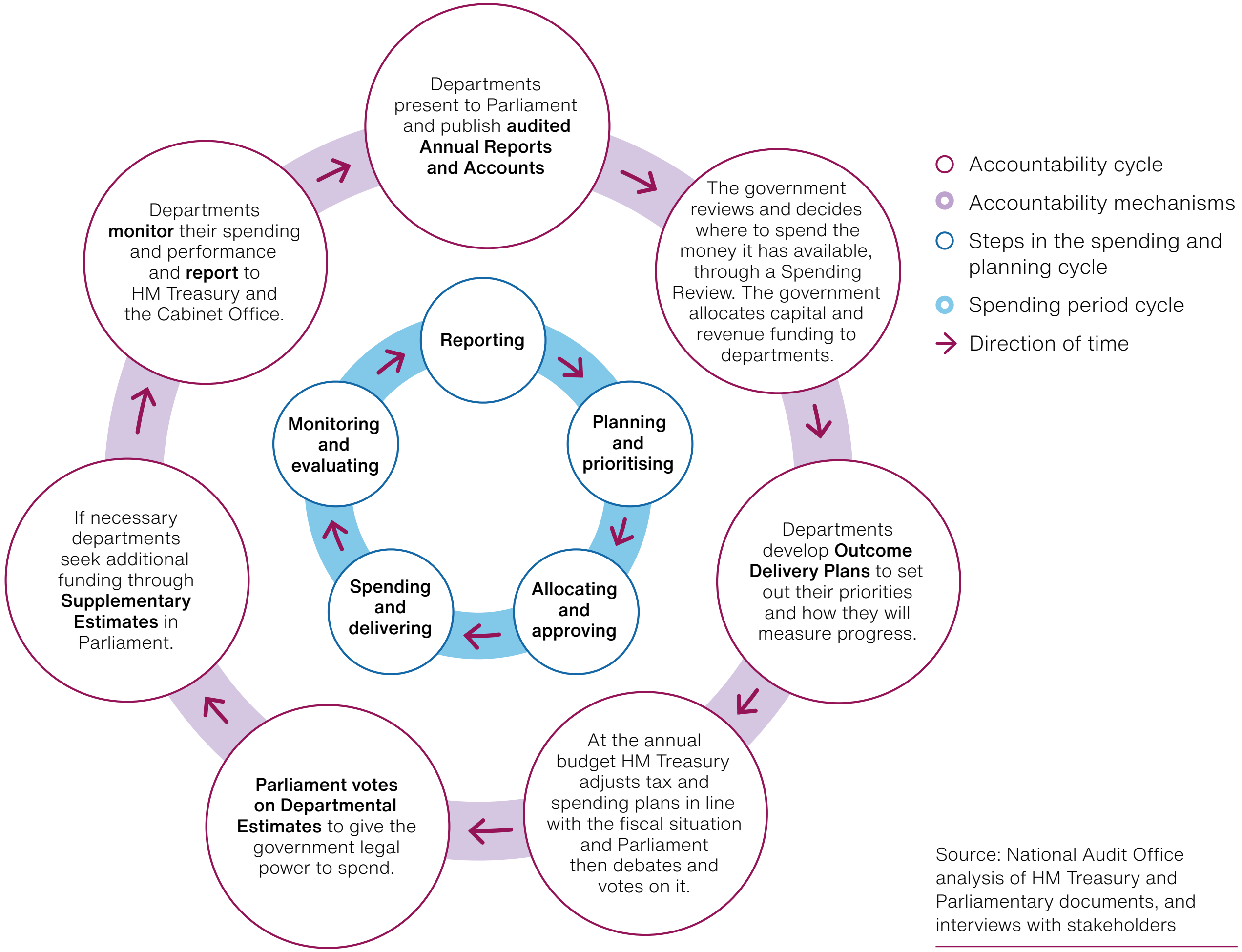
The timing of multi-year spending reviews, introduced in 1998, was previously determined by HM Treasury. In July 2024, the Chancellor announced that reviews would become fixed, occurring every two years and covering a minimum of three years.

In July 2024, HM Treasury formally announced Spending Review 2025. This will come in two phases, with expenditure for 2024-25 and 2025-26 being set in the October Budget, and years beyond that being set in Spring 2025.

We've identified eight lessons for government on spending and planning in our report: *Lessons learned: a planning and spending framework that enables long-term value for money*.

The government planning and spending cycle

The way the government plans, allocates and manages its spending follows a cycle with key points of accountability to Parliament



Source: National Audit Office analysis of HM Treasury and Parliamentary documents, and interviews with stakeholders

10 Sustainable public finances

Priority outcome 1:

Place the public finances on sustainable footing by controlling public spending and designing sustainable taxes

As the government department with overall responsibility for public spending, one of HM Treasury's strategic objectives is to place public finances on a sustainable footing. The planning and spending process (covered in Sections 8 and 9) helps HM Treasury control spending across government.

HM Treasury sets the strategic direction of the tax system and works with HMRC to ensure tax receipts are delivered efficiently and effectively. Oversight of the tax system is important for the sustainability of public finances as the government will need to borrow when it spends more than it raises through taxation, increasing its stock of debt.

The government sets itself fiscal rules to ensure that public finances are sustainable, including in relation to the levels of debt and borrowing. The Chancellor can change the fiscal rules. The government's target during 2023-24 was to reduce underlying debt (public sector net debt excluding the Bank of England) as a percentage of GDP within the fifth year of the OBR's official economic forecast. This is supplemented by a target that government borrowing should not exceed 3% of GDP by the fifth year of the same forecast period.

Our *Managing government borrowing* report describes how greater debt and increasing interest rates mean the government needs to pay more in interest payments. If debt costs rise, borrowing may need to increase further so that the government can meet higher debt interest payments. As debt servicing costs rise, choices about spending in different government areas become more acute, particularly when there is existing pressure on departmental budgets.

How HM Treasury aims to deliver this outcome:

- through fiscal events such as Budgets and Spending Reviews;
- by using departmental reporting and controls to manage public spending;
- by maintaining a sustainable balance between taxes, borrowing and debt; and
- by working with HMRC to ensure taxation policies are effective.

HM Treasury highlighted in its annual report the following key issues and risks related to sustainable finances	
Spending pressures	Increased spending risks from new pressures, as well as challenges in generating savings, has increased pressures on departmental settlements. A multi-year spending review will establish new departmental spending limits in Autumn 2024.
Public sector pay and industrial action	Balancing public sector pay with sustainable public finances is a key challenge. Short-term domestic risks such as industrial action became less widespread throughout 2023-24 as pay settlements were agreed.
Debt sustainability	Structural changes to the economy caused by an ageing population, climate change and the transition to net zero are expected to put pressure on public spending and pose risks to the tax base over the coming decades.

Section 10:
Sustainable public finances *continued*

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Key government bodies supporting HMT for this outcome:

- Debt Management Office (DMO) is responsible for debt and cash management for the government, lending to local authorities and managing certain public sector funds.
- National Savings and Investments (NS&I) functions as a savings bank, offering a range of savings and investments.
- Office for Budget Responsibility (OBR) provides independent and authoritative analysis of the UK's public finances.
- UK Government Investments (UKGI) is responsible for managing the government's financial and stewardship interests in a range of state-owned assets (for example, NatWest shares).

Managing government borrowing

July 2023

- This report examined how public bodies pursue the government's debt management objective, and particularly how the government manages the risks of borrowing.
- We found that the environment for borrowing and debt management has become more challenging in recent years, but reviews of the government's debt management approach have found it is operating effectively.
- The government has been able to borrow to meet its spending needs, including during times of crisis such as the 2008 financial crisis and the COVID-19 pandemic, but the DMO's ability to borrow depends on the willingness of lenders.
- The DMO's role requires skills most often found in financial markets, which attract remuneration beyond what the DMO can offer. This presents recruitment and retention risks. We recommended that the government ensures that it has plans to manage skills and capacity risks to its debt management operations.

Accounting Officer assessments: improving decision-making and transparency over government's major programmes

July 2022

- Accounting officer (AO) assessments are a critical part of HM Treasury's controls and processes. They provide a framework for accounting officers to consider significant spending decisions against the four public spending standards – regularity; propriety; value for money; and feasibility.
- We found that accounting officers were not consistently publishing and sharing their AO assessments on major programmes in line with HM Treasury guidance, and that they do not always include sufficient information to make clear what issues accounting officers considered when making their judgements. We recommended that HM Treasury remind accounting officers to publish their assessments to improve transparency.

Financial modelling in government

January 2022

- Financial modelling is at the heart of how the government understands its spending, performance and risks, and makes business-critical decisions. Outputs from models underpin decisions made by departments and ALBs that often have large impacts.
- We found that there were significant weaknesses in how the government produces and uses models. The level of quality assurance that departments apply to business-critical models was variable, and the analysis of uncertainty was often a peripheral activity despite it being recommended in government guidance.
- We concluded that the government was overly reliant on central best estimates from models, which did not fully reflect the inherent uncertainty and risks. We noted that, without further progress, government plans would continue to be developed with weaknesses that place value for money at risk. We recommended that HM Treasury put processes in place to ensure business-critical models are quality-assured in line with modelling standards.

11 Delivering economic growth

Priority outcome 2:

Increase employment and productivity to deliver sustainable economic growth and level up across all parts of the UK

HM Treasury aims to strengthen the economy by fostering economic growth, increasing productivity and the number of people in employment, and maintaining the UK's competitive advantages. HM Treasury reports that securing sustainable and long-term economic growth is "at the heart of everything HM Treasury works to achieve" and that "local growth is at the core of this vision to ensure the benefits of economic development are felt everywhere".

HM Treasury also aims to avoid economic growth having a material impact on inflation or overall borrowing where possible, in order to meet its other objectives of sustainable public finances and macro-economic stability. Investment and growth also played a part in the previous government's strategy to reach net zero by 2050.

HM Treasury is not the only government department with objectives specifically focused on growing the economy. The Department for Business & Trade and the Department for Science, Innovation & Technology also have growth objectives.

How HM Treasury aims to deliver this outcome:

- by supporting key sectors, such as digital technologies, life sciences, creative industries and advanced manufacturing;
- with 'supply-side' reforms aimed at encouraging businesses and growth, such as targeted tax cuts and plans to support people into work;
- with reforms aimed at making the UK an attractive place to do business, such as financial services reform or creating new investment zones;
- by investing in economic infrastructure; and
- by working on international trade agreements alongside the Department for Business and Trade.

HM Treasury has highlighted the following key issues and risks related to growing the economy in its annual report

Supply-side reforms	The previous government aimed to use supply-side reforms to stimulate economic growth. Supply-side economics is the concept that growth can be stimulated by increasing the supply of goods and services, for example, by lowering taxes and decreasing regulation. This included cutting the rate of employee National Insurance contributions, investing in the UK's manufacturing sectors, and introducing plans to support people back into work.
Business investment	Business investment affects the UK's productivity and helps grow the economy over the long term. HM Treasury monitors levels of business investment as a key indicator of its performance in driving growth.
Regulatory changes in the financial services sector	HM Treasury's plan to build a smarter regulatory framework aims to facilitate growth and innovation in the financial services sector. Introducing the Financial Services and Market Act in 2023 marked a turning point for tailoring regulation of financial services to the UK (more information can be found in part 13).

Section 11:
Delivering economic growth *continued*

Key government bodies supporting HMT for this outcome:

- National Infrastructure Commission (NIC) provides the government with impartial, expert advice on major long-term infrastructure challenges.
- Infrastructure and Projects Authority (IPA) is a joint unit between HM Treasury and Cabinet Office which is the centre of expertise for infrastructure and major projects.
- The National Wealth Fund (NWF) was created from the UK Infrastructure Bank (UKIB) in October 2024. It has £27.8 billion with which it aims to increase private investment and drive growth across the UK.
- British Business Bank is a government-owned economic bank specialising in helping businesses in the UK access financial support and business advice services.

Note: In October 2024 the government announced plans to create a new body, the National Infrastructure and Service Transformation Authority (NISTA), which will merge the IPA and NIC.

Tax measures to encourage economic growth

January 2024

- The government can use tax measures to encourage economic growth by providing tax reliefs to incentivise certain sectors or activities. As at December 2023 the UK had 341 non-structural tax reliefs intended to achieve social or economic objectives.
- We found that the government had not identified the number and cost of reliefs with economic objectives, and they are not monitored as a group, or compared, for overall effectiveness.
- The government has reduced some reliefs following evaluation of their cost and impact, increasing tax revenue by billions of pounds.
- In some cases, the government has not amended reliefs years after evaluations found they had had a limited effect. Evaluations can contribute to changes that help save billions of pounds for the Exchequer, but the government has reduced its budget for evaluation by more than a quarter in 2023-24.
- We recommended that HM Treasury and HMRC make a step-change in how they assess whether tax reliefs achieve their economic objectives, are not too costly, and are not exploited to avoid or evade tax.

The creation of the UK Infrastructure Bank

July 2022

- This report covered the Bank's set-up, including HM Treasury's planning, before its launch. Some elements of the Bank, particularly its advisory function, were yet to be established at the time of reporting and would take time to fully mature.
- The Bank made early deals in a measured way, and there appeared to be high demand for its investment. At the end of May 2022, the Bank had made five deals, all loans, amounting to £311.5 million.
- We found that there were things outside the Bank's control which affected its ability to invest in some projects, such as supply chains, cost inflation and the revenues that projects can ultimately generate. The Bank's ability to attract private finance also depends on these factors, as well as on financial market conditions.
- We recommended that the Bank should develop its understanding of where infrastructure needs are greatest to inform and prioritise investment decisions. It should bring this together with a clear view of what it can do best, based on its skills and information about its performance.

12 Ensuring macro-economic stability

Priority outcome 3:
Ensure the stability of the macro-economic environment and financial system

Macro-economics refers to the economics of the UK as a whole. HM Treasury states that it aims to maintain macro-economic stability through its framework of operationally independent monetary policy, responsible fiscal policy, supply-side reforms, and effective financial system regulation. Ensuring macroeconomic stability allows HM Treasury to create the right conditions for its other objectives, such as achieving economic growth.

There were a number of risks to the stability of the economy during 2023-24. High inflation was a risk to economic stability as it reduces incomes in real terms, creates uncertainty and threatens economic growth. Wider international factors continued to influence the UK's economic outlook. For example, Russia's war on Ukraine and the situation in Gaza both created risks in international markets which posed risks to the economic stability of the UK.

Ensuring the resilience of the UK's financial system and economic infrastructure is important, as failures in key parts of the economy can have destabilising effects elsewhere. Our work has shown that, when critical businesses or service providers fail, the government may need to intervene to protect the economy at a significant cost. More information on HM Treasury's role in promoting stability through regulation can be found in Section 13.

How HM Treasury aims to deliver this outcome:

- through management of the macro-economic framework and economic strategy;
- by working on regulation to address stability risks in financial sectors;
- by improving cyber and operational resilience in economic infrastructure; and
- through international work, including responding to world events such as Russia's invasion of Ukraine.

HM Treasury has highlighted the following key issues and risks related to macroeconomic stability in its annual report	
Inflation	While inflation has fallen towards the government's 2% target, risks remain to reaching this target. Domestic pressures became a more significant driver of inflation over the course of 2023-24. Externally, developments in the Middle East pose an ongoing risk to the inflation outlook.
International outlook	Russia's war in Ukraine has driven instability in global markets such as energy markets, with economic repercussions on inflation and growth. The ongoing conflict in Gaza also created instability in markets and led to further economic uncertainty.
National Security Risk Assessment	HM Treasury is the lead department for four risks included on the national risk register: malicious attacks on UK financial critical national infrastructure; cyber-attack on a retail bank; technological failure of a systematically important retail bank; and the technological failure of UK critical financial market infrastructure.
Regulatory reform	Ongoing regulatory reforms are expected to support economic stability. These include ring-fencing reforms, which separate core retail services from risks arising elsewhere in the financial system, and reforms to Money Market Funds (MMFs), which are forms of collective investment schemes.

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Key government bodies supporting HMT for this outcome:

- The Bank of England is operationally independent from HM Treasury, with specific statutory responsibilities for setting monetary policy and enhancing financial stability. It also supports the economic policy of the government for its objectives on growth and employment. The Prudential Regulation Authority **(PRA)** is a part of the Bank which regulates and supervises financial firms. The PRA sets rules and steps in if firms are not being run in a safe and sound way to promote financial stability.
- Financial Conduct Authority **(FCA)** is a regulatory body which operates independently of government and is financed by charging fees to the financial services industry. The FCA regulates the financial services industry to protect consumers, keep the industry stable and promote healthy competition between providers.

Lessons learned: Monitoring and responding to companies in distress

October 2023

- We examined many examples of government interventions to support companies in distress, including interventions during the 2008 financial crisis. These examples show that government interventions involve complex decision-making at speed; require short notice access to specialised skills that are not widely held across government; can be very costly in the short term; and may take a long time to exit from.
- The government views intervention as a last resort. However, there are circumstances where it may decide to intervene: to support a company and prevent it from failing, to rescue it from insolvency, or to manage the situation so that it does not fail in a disorderly way.
- Our guide sets out ten elements for the government to consider and some questions to support good practice and value for money in monitoring, preparedness and response to company distress situations.

Bank of England: Managing legal, ethical and staff compliance risks

March 2024

- The Bank relies on public trust and its reputation for integrity to carry out its role. It aims to promote “the highest standards of integrity and high ethical standards within the organisation”.
- Following high-profile incidents in 2017 and 2019, the Bank overhauled its approach to identifying and managing non-financial risks. We found that it had made good progress in developing systems and processes to understand the risks it faces and to manage them in a responsive and proportionate way.
- However, the Bank recognised that it has more to do to ensure its systems and processes for managing compliance risks are effective in practice, and it is planning further improvements.
- We recommended that the Bank examined the completeness of controls in place to manage risks, and to develop a programme of work to evaluate how changes to its approach are working in practice.

13 Financial services regulation

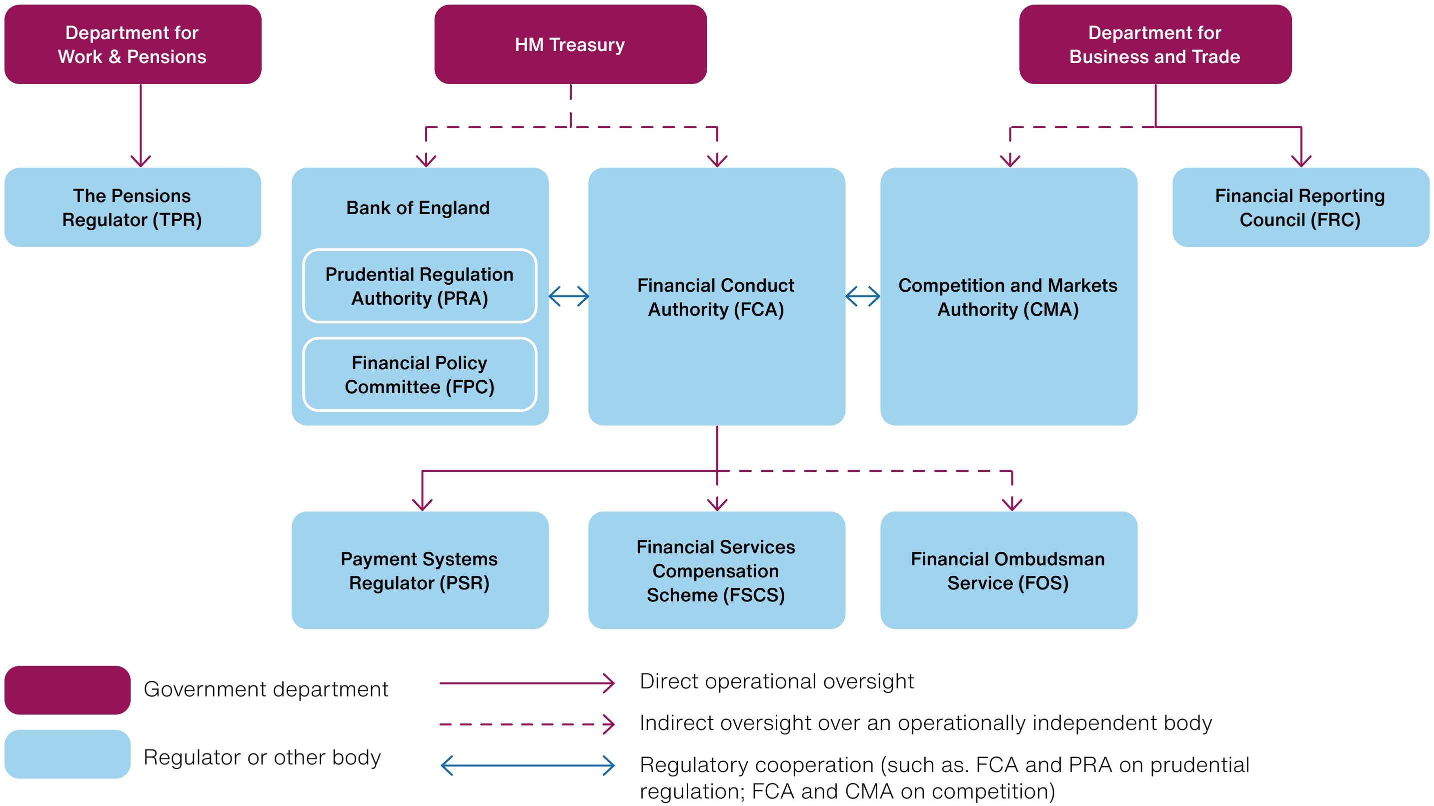
HM Treasury states that effective financial system regulation is central to maintaining macro-economic stability and creating the conditions for increased sustainable economic growth. A range of regulatory and oversight bodies work together to support these objectives, forming a wider financial services regulatory regime.

Government bodies in the regulatory regime:

- **The Bank of England**, particularly the Prudential Regulation Authority (PRA) which undertakes prudential regulation of banks, insurers and major investment firms, and the Financial Policy Committee (FPC) which issues directions to ensure the stability of the financial system as a whole.
- **Financial Conduct Authority (FCA)**, regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between service providers.
- **The Competition and Markets Authority (CMA)** helps people, businesses and the UK economy by promoting competitive markets and tackling unfair behaviour.

Regulators and other government bodies involved in the wider financial services regulatory regime, as of March 2024

HM Treasury has relationships with a wide range of the regulators responsible for financial services and stability



Source: National Audit Office analysis of regulatory framework agreements

Section 13:
Financial services regulation *continued*

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Regulating financial services helps the government manage risks to the integrity and stability of the financial system, protect consumers and promote healthy competition between firms. This keeps financial markets functioning effectively, which in turn maintains stability across the macro-economic system, creating conditions which encourage economic growth.

The government introduced the Financial Services and Markets Act (FSMA) in 2023 to tailor financial services regulation to the UK following its exit from the EU. At the end of December 2023, HM Treasury had removed 44% of assimilated law relating to financial services, totalling 344 different instruments.

Financial Services and Markets Act (FSMA) 2023

In June 2023 the government introduced primary legislation to reform the UK's system of financial regulation. The FSMA introduced a new secondary growth and competitiveness objective for the PRA and FCA, increased accountability arrangements, revoked retained EU law (REUL) on financial services, and created a new mechanism for regulating specific activities which were not yet regulated by the FCA.

FSMA 2023 gives the FCA more direct power to set regulation via making rules and provides specific powers to HM Treasury for developing regulatory policy. HM Treasury has the power to require the FCA to make or review rules in specific areas, but it cannot specify the form or content of the rule.

Under FSMA 2023, the FCA is required to notify parliamentary committees when it carries out consultations and to respond to consultation feedback from the committees. The Treasury Select Committee has a specific sub-committee to scrutinise regulatory proposals.

Financial services regulation: Adapting to change

December 2023

- We reported on how the Financial Conduct Authority (FCA) was preparing to use its powers and how the FCA was adapting to change. At the time of our report, the FCA expected that its work to support the statutory changes introduced as part of FSMA 2023 would take years to complete.
- The FCA published a multi-year strategy for the first time in April 2022, covering 2022–2025 and setting out its ambition to focus on outcomes rather than processes, and to embed its new secondary growth objective.
- We found that the FCA had well-developed tools to enable it to regulate innovations in financial services markets. For example, it has set up processes to support firms who were developing innovative business models, such as a 'regulatory sandbox' to allow firms to test innovative products, services, business models and delivery mechanisms.
- We recommended that HM Treasury and the FCA should work with other stakeholders to review the effectiveness of new accountability arrangements, as well as making operational recommendations aimed at the FCA.

14 What to look out for

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The spending and planning framework

The Spending Review 2025 (SR25) is ongoing. Two phases are planned for October 2024 and spring 2025, with the majority of new funding commitments expected in the second phase. The second phase is also where HM Treasury and the Cabinet Office will be able to introduce new ways of running the process. One of the Office for Value for Money's roles will be to ensure that the spending decision making processes support the government's missions and deliver value for money.

Look out for: where the government chooses to increase funding and where the government seeks savings.

The rule-making powers of regulators

Since the Financial Services and Market Act 2023 was introduced to replace retained EU law and make other regulatory changes, the financial regulators have the power to propose new rules. This has included Financial Conduct Authority and Bank of England powers over financial markets infrastructure and Payments Systems Regulator (PSR) powers to require customer reimbursement for some types of fraud.

Look out for: the announcement and implementation of new rules, as well as the practical impacts on regulated companies.

Monetary Policy Committee (MPC) decisions

At the 31 July 2024 meeting of the MPC, it narrowly voted to lower the bank base rate to 5%, having maintained the rate at 5.25% since August 2023. In the 18 September 2024 meeting the rate was held at 5%. The rate is key to determining interest rates for financial products and is a key lever for tackling inflation.

Look out for: The headline inflation rate, and whether the MPC votes to lower interest rates, by how much, and how often.

The future of quantitative tightening

Quantitative tightening is the opposite of quantitative easing – it is the process by which the Bank of England sells assets held within the Bank of England Asset Purchase Facility Fund (BEAPFF) to the market. On 18 September 2024 the Monetary Policy Committee voted unanimously to sell a further £100 billion of assets over the following twelve months.

Look out for: decisions on the scale of further sales of assets held within BEAPFF as made by the Monetary Policy Committee.

National Wealth Fund

In July 2024, the government announced that a new National Wealth Fund (NWF) would be created to invest in the "new industries of the future". The aim being to align the UK Infrastructure Bank (UKIB) and the British Business Bank (BBB), and allocate an additional £7.3 billion in funding. In October 2024, UKIB became known as the NWF and government announced the additional funding was reduced to £5.8 billion, with the £1.5 billion difference held in reserve to maintain flexibility. The NWF will build on UKIB's previous work and its existing £22 billion capitalisation, giving NWF a total capitalisation of £27.8 billion. The announcement also said that NWF would work alongside BBB which already provides finance for smaller companies.

Look out for: how the new NWF plans to spend the additional funds, and how it works with BBB.

Management of financial sanctions

Since Russia's invasion of Ukraine in 2022, the UK's sanctions regime has expanded. In response, the Office for Financial Sanctions Implementation (OFSI) increased resource on its enforcement team by 175% in 2022-23. More recently other departments gained new responsibilities for sanctions, such as the Department for Business and Trade which launched the Office of Trade Sanctions Implementation (OTSI) in October 2024.

Look out for: how departments responsible for sanctions enforcement work together to tackle sanction avoidance.

15 More information about our work

Lessons learned: a planning and spending framework that enables long-term value for money

October 2024

HM Treasury and the Cabinet Office are responsible for managing and improving the government framework for spending and planning.

Drawing on the NAO's back catalogue, government documents, as well as interviews with stakeholders and departments, we highlight eight lessons that Parliament and the government should consider as future spending reviews progress in order to achieve value for money across government.

Lesson learned: Delivering value from government investment in major projects

February 2024

This report examines how major projects achieve value after their completion using six case studies, including High Speed 1, the O2 Arena and the London 2012 Olympic and Paralympic games.

The lessons fit into three themes.

- Start with the differences you want to make and value you want to add with clear objectives focused on intended value.
- Consider the needs and concerns of stakeholders.
- Regularly review the asset's outcomes and benefits and be open to the possibility of adaptation to suit changing environments.

Managing government borrowing

July 2023

HM Treasury is responsible for delivering the government's overall debt management objective. We looked at how HM Treasury and associated public bodies manage government debt as well as risk management with regards to borrowing.

We found that:

- measuring performance against the government's debt management objective is complex;
- government must strike a balance between benefits and risks when deciding for how long to borrow (for example when issuing gilts); and
- public bodies rely on experience and skills commonly found in financial markets, which presents recruitment and retention challenges.

Support for innovation to deliver net zero

May 2023

The UK has a legislative requirement to meet net zero by 2050. Investment from both the government and the private sector will be key to achieving net zero. We found that:

- the main innovation priorities and timescales were clearly laid out to stakeholders in a framework;
- the level of longer term public sector investment required to support delivery in innovation areas was not considered;
- the complexity of public sector funding will make it hard for the government to track spending; and
- there was no clear distinction made on responsibility of oversight of individual innovation challenge areas.

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Section 15:
More information about our work *continued*

Lessons learned: Cross-government working

July 2023

This report examines what effective cross-government working looks like and highlights limitations. It covers the roles of HM Treasury, Cabinet Office and government departments in supporting and delivering cross-government work, as well as work undertaken to identify barriers to cross-government working. We found that:

- there must be consideration for which projects will benefit from cross-government working as well as what departments are involved in delivering policies that blur departmental boundaries;
- there is a stronger need for effective risk management and governance; and
- there must be an emphasis on monitoring and evaluating to identify best practice.

Tackling fraud and corruption against government

March 2023

This report considers the government's understanding of the scale of fraud and corruption. We found that:

- the government estimates fraud against the taxpayer was £21 billion over the two years from 2020-21 to 2021-22, and that it is very unlikely that most will be recovered;
- few parts of government outside of tax and welfare have good measures in place to asses the level or types of fraud and corruption in their business; and
- the creation of the Public Sector Fraud Authority (PSFA) gives the government a chance to improve its understanding of fraud and the ways it can be counteracted.

16 Appendix 1: Bank of England Asset Purchase Facility Fund (BEAPFF)

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HM Treasury provides an indemnity to the Bank of England for any losses or profits incurred as a result of operating the Bank of England Asset Purchase Facility Fund (BEAPFF), which is a wholly owned subsidiary of the Bank of England set up to implement the government's policy of quantitative easing.

The total cost of BEAPFF appears on HM Treasury's balance sheet, either as an indemnity on losses incurred on the assets held within the facility, or as financial gains which accrue to HM Treasury. As at 31 March 2024, the indemnity was valued as a £173.4 billion liability. Key government financial indicators, such as public sector net debt and expenditure, tend to exclude Bank of England spend.

Quantitative easing and quantitative tightening

Quantitative easing is the purchasing of government debt and other assets financed by the issuance of central bank reserves, which intends to lower interest rates for households and businesses.

In the UK, the Bank of England purchased assets such as UK government bonds (gilts) and corporate bonds on the secondary market, financed by the creation of central bank reserves, reaching a maximum authorised size of £895 billion in assets in November 2020. This lowered the 'yield' or 'interest rate' on the assets purchased, incentivising investors to move funds into other types of assets, which in turn feeds through to lower interest rates in other parts of the economy.

In February 2022 the Monetary Policy Committee (MPC) decided to begin reducing the stock of assets held in the facility, entering a stage of quantitative tightening. Initially, this consisted of ceasing the reinvestment of maturing gilts and corporate bonds, but from September 2022 it also involved active sales of asset holdings. The MPC has voted on the annual target for reducing the assets held in the facility each year in September. In September 2024 the MPC reported that the stock of gilts held within the facility was £659 billion, and that it had decided to reduce this stock by £100 billion over the next year.[2] The Bank of England has said it expects to sell these assets at a similar pace until the portfolio is fully unwound.

The overall fiscal impact of quantitative easing is uncertain, as it has supported the economy, asset prices, and financial markets at various points of stress over the past 15 years. The Office for Budget Responsibility's most recent estimate of the lifetime cost of the Asset Purchase Facility (in March 2024) is a net loss of £104.2 billion, although with lower interest rates the estimated loss is £46.6 billion, and with higher interest rates, a loss of £156.9 billion.

Key challenges ahead	
Sensitivity of BEAPFF to interest rates	The Bank's interest rate affects the lifetime cost of BEAPFF. When interest rates are high, they exceed the fixed rates paid on the assets purchased, resulting in a loss when the assets are sold. If interest rates go down, the cost of the indemnity also goes down.
Sensitivity of BEAPFF to market conditions	Movements in market conditions can create losses and increase the size of the indemnity if the market value of gilts held in BEAPFF fall below the purchase value. Gilt holdings also generate an income known as yield which is sensitive to market conditions.[1]

Note

1 An indemnity is a security or protection against a financial liability, typically occurring in the form of a contractual agreement between parties. In this case, HM Treasury has an indemnity agreement with the Bank of England for losses incurred through BEAPFF.

2 The MPC's stock reduction target is expressed in terms of the proceeds first paid to purchase assets, known as 'initial purchase proceeds'.