Smarter Money

Reforming HM Treasury

By Tim Ambler

DISCUSSION PAPER

EXECUTIVE SUMMARY

- The Treasury has responsibility for a number of functions that are currently performed inefficiently and represent poor value for taxpayer money;
- The department's stated objectives are too broad and cannot be used as indicators of objective achievement. It should instead be organised around realistic quantified objectives aligned with executive agencies that could feasibly deliver them;
- Non-departmental Public Bodies (NDPBs or 'quangos') should either be abolished or become Executive Agencies if they are substantively adding to their departmental capacity;
- The paper's recommendations include the following:
    - Close down the Government Internal Audit;
    - Abolish the National Infrastructure Commission;
    - Consider ways in which the UK Infrastructure Bank's objectives could be achieved by the private sector;
    - Close the Office of Tax Simplification and the HMRC Administrative Burdens Advisory Board, and replace them with an independent body drawn from academia;
    - Abolish the Financial Reporting Advisory Board;
- Taken together, if all the recommendations within this paper were implemented, this would amount to a saving of 1,505 staff (43% of the present total).

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ABOUT THIS SERIES

The UK government plans to reduce the civil service headcount by nearly 20%. We believe that deeper savings—bringing lower costs and greater efficiency—are easily possible. Whitehall has grown far more than 20% in the last seven years alone and we have found most departments to be a confused clutter of overlapping functions and agencies. This series aims to cut through that clutter to suggest nimbler, lighter structures.

Whitehall departments have two functions: to manage policy and to provide services. We believe that services (such as passport provision) should be provided by executive agencies, without being swamped by the core department staff. We also believe that the cores could work, more effectively, with a fraction of their staff.

Deep staff reductions can be managed through natural turnover, early retirement, pausing non-essential recruitment and other methods. The result would be a slimmer, more focused civil service, better services for users and substantial savings for taxpayers.

OVERVIEW

HM Treasury is the smallest of the principal government departments but the most influential and complex. It had three priority outcomes for 2021-22:

> *"1. Place the public finances on a sustainable footing by controlling public spending and designing sustainable taxes;*
>
> *2. Level up the economy, ensuring strong employment and increase productivity across the regions and nations of the UK; and*
>
> *3. Ensure the stability of the macroeconomic environment and financial system."*[1]

The Treasury has policy responsibility for several non-ministerial departments and public corporations. The public corporations include the Bank of England, the Financial Conduct Authority, NatWest Group, the Crown Estate, and the Royal Mint. The non-ministerial departments include the Government Actuary's Department, National Savings and Investments, and HM Revenue and Customs as well as its arm's length bodies (ALBs) (Annual Report 2021/22, pp.8-9).

Here we focus on the core department and not these corporations and departments.

STAFFING AND STRUCTURE

HM Treasury was staffed in 2021/22 as follows (p.119):[2]

	2021/22	2020/21
Treasury core and agencies	2,665	2,480
ALBs and other bodies	808	792
Total	**3,473**	**3,272**

However, according to Figure 1B and p.154 of the annual report, the core had 2,042 in 2021/22 staff and agencies 610, totalling 2,652. "Agencies" means executive agencies which are in fact Arm's Length Bodies (ALBs), and there is further inconsistency about how many of these there are.

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1 HM Treasury, 'HM Treasury Outcome Delivery Plan 2021 to 2022', July 2021: https://www.gov.uk/government/publications/hm-treasury-outcome-delivery-plan/hm-treasury-outcome-delivery-plan-2021-to-2022

2 HM Treasury, 'Annual Report and Accounts 2021-2022', July 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1092103/HMT_Annual_Report_and_Accounts_2021-22.pdf

These inconsistencies are demonstrated in the table below:

Type	HMT Annual Report 2021/22	Cabinet Office list (31/3/20)[3]	Departments, agencies and public bodies (2022)[4]
Executive Agencies	3	4	3
Non-departmental public bodies (NDPBs)	8	2	3
Non-ministerial departments (NMDs)	-	3	2
Other	6	-	7
Total	**17**	**9**	**15**

ASSESSING THE ALBS

The Cabinet Office has decreed that there should be only three types of arm's-length body:

- **a Non-departmental Public Body (NDPB)** is a "body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers". NDPBs have different roles, including those that advise ministers and others which carry out executive or regulatory functions, and they work within a strategic framework set by ministers.
- **Executive Agencies (EA)** are clearly designated units of a central government department, administratively distinct, but remaining legally part of it. It has a clear focus on delivering specific outputs within a framework of accountability to ministers.
- **A Non-Ministerial Department** is a government department in its own right, but does not have its own minister. However, it is accountable to Parliament through its sponsoring ministers. A non-ministerial department is staffed by civil servants and usually has its own estimate and accounts."[5]

This is manifestly incorrect as it ignores public corporations which are independent of government such as the Bank of England and BBC, and it introduces ambiguity into NDPBs and NMDs which are supposed to be independent of, yet subsidiary to, their government departments. Furthermore, NDPBs can only be created or abolished by act of parliament whereas EAs, which are typically larger and more important, are created by ministerial fiat. Technically, employees of NDPBs and public corporations are public, not civil, servants. Government reports typically observe the latter nicety but not the former.

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3 Gov.uk, 'The Arms Length Body (ALB) landscape at a glance', 2020: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1001885/Public_Bodies_2020.pdf

4 Gov.uk, 'Departments, agencies and public bodies': https://www.gov.uk/government/organisations

5 Cabinet Office, 'Public Bodies', February 2013: https://www.gov.uk/guidance/public-bodies-reform

Government needs only needs three types of public bodies: the core departments, executive agencies and public corporations. NDPBs ("quangos") should either be abolished or become EAs if they are substantively adding to their departmental capability, i.e. delivering policies. Many NDPBs are, in practice, merely advisory, and do not need to be formal ALBs. Departments can invite experts to advise whenever they like.

The following reviews the Treasury's agencies, arm's length and other bodies, and finally the core department. It uses staff numbers from Figure 1B and p.154 of the Treasury 2021/22 annual report, though these do not always agree with the published ALB accounts.

EXECUTIVE AGENCIES

The UK Debt Management Office (DMO) was established in 1998. Its responsibilities include government debt and cash management, lending to local authorities and managing certain public sector funds. With no income, it cost £23 million in 2021/22 and staffing was 130 (129 in 2021).[6] Its value for money has not been assessed by the National Audit Office (NAO) but its Annual Report suggests it does a good job. We propose no change.

The Government Internal Audit Agency (GIAA) was established in 2015 to provide internal audit services to government departments. It employs 435 staff (446 in 2020/21) and costs £55 million, £38 million of which is charged to other departments.[7] The role of internal audit should be threefold: detecting mismanagement or misaccounting of funds, installing systems to prevent that, and reducing the cost of external audit by doing part of their job. The Annual Report reveals that the GIAA provides value for money in none of those ways and has never been formally reviewed by the National Audit Office (NAO). It should be. The agency measures its performance by 'customer satisfaction', which is absurd: if it did a bad job of detecting departments' fraud and mismanagement, they would of course be 'satisfied'. Unless the GIAA can show that it is value for money, which seems unlikely, it should be terminated and auditing left to the NAO, with a 435 staff saving.

The National Infrastructure Commission (NIC) provides expert, impartial advice to the government on infrastructure, develops the national infrastructure assessment as well as specific studies and engages with the public and private sectors to consult on future infrastructure needs and solutions. This is really an advisory group, not an executive agency. The Treasury can ask experts for advice without needing the formality and inflexibility of an advisory non-departmental public

6 United Kingdom Debt Management Office, 'Annual Report and Accounts of the United Kingdom Debt Management Office and the Debt Management Account 2021-2022', July 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1090611/DMO_DMA_Annual_Report_and_Accounts_2021-2022__accessible_.pdf

7 Government Internal Audit Agency, 'Annual Reports and Accounts 2021-2022', July 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1092074/GIAA_Annual_Report_and_Accounts_2021-22.pdf body. The 2020/21 cost was £5.1 million (£5.3 million in 2019/20).[8] Abolishing it would save 40 staff.

NON-DEPARTMENTAL PUBLIC BODIES

The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances. Average full-time equivalent staffing in 2021/22 was 39 (33 the year before) and the total cost was £3.9 million.[9] It should become an executive agency. No other change is proposed.

UK Government Investments Limited (UKGI) was established in 2016 to manage the government's financial interest in a range of state-owned businesses. In 2021/22 staff numbered 141 (134 the previous year) and the cost was £16.5 million.[10] The Treasury should only require one company to hold its assets. UKGI should absorb UKAR and IUK (see below) and become an executive agency.

UK Asset Resolution Ltd (UKAR) was established in October 2010 to bring together the business of Bradford & Bingley and NRAM. Following the sale of these, UKAR services the residual pension schemes and contingent liabilities related to the sales. UKAR has directors but, seemingly, no other staff and the whole company falls under the control of UKGI.[11] The £925 million dividends in 2021/22 were tucked away to help cover impairment. UKGI should absorb it. This would save 52 staff.

Reclaim Fund Ltd, established in 2011, sees that money in dormant bank and building society accounts to be used to help good causes. About a dozen staff plus directors and the paraphernalia of the modern company bureaucracy are employed on this, but while £154 million came in during the 15 months to 31st March 2022, only £92 million was approved for passing on.[12] Instead, distributions should be made according to a formula agreed annually and the body closed, saving 11 staff.

The UK Infrastructure Bank Ltd (UKIB), which opened in June 2021, is not actually a bank and is not authorised or regulated by the Prudential Regulation Au-

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8 National Infrastructure Commission, 'Annual Report and Accounts for the Year Ended 31 March 2021', November 2021: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031268/NIC_Annual_Report_and_Accounts_2020_to_2021_Final_4_November.pdf

9 Office for Budget Responsibility, 'Annual report and accounts 2021-22', June 2022: https://obr.uk//docs/dlm_uploads/OBR-ARA-2021-22_HC-359.pdf

10 UK Government Investments, Annual report and accounts 2021-22', July 2022: https://www.gov.uk/government/publications/uk-government-investments-annual-report-and-accounts-2021-22/uk-government-investments-annual-report-and-accounts-2021-22

11 UK Asset Resolution Limited, 'Annual Report & Accounts for the 12 months to 31 March 2022', July 2022: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1093058/E02773427_CP_718_UKAR_ARA_2022_WEB.pdf

12 Reclaim Fund Ltd, 'Annual Report and Accounts 2021/22', July 2022, p.78: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1093102/2021-22_RFL_ARA_FINAL_signed_as_laid_before_Parliament.pdf thority (PRA) or the Financial Conduct Authority.[13] In the (June 2022) Strategic Plan, the Chief Executive writes "We closed 7 deals worth £610 million — mobilising over £4.2 billion of private capital — opened two offices, onboarded 146 staff and started to build relationships with our stakeholders."[14] UKIB has £22 billion at its disposal and aims to use that to help tackle climate change and promote economic growth across the United Kingdom. The only mention of "profit" in its framework document is a single mention of "political profit".[15] Little attention has been paid to commercial realities or the legitimate concerns raised in the House of Lords.[16] In short, this appears to be an undisciplined way to throw public money at fashionable ideals. A way should be found for these ideals to be achieved by the private sector and the 141 staff outboarded.

IUK Investments Holdings Ltd, with 11 staff,[17] and its subsidiary IUK Investments Ltd, were established in 2013 to hold PF2 investments in infrastructure projects. It should be merged into UKGI.

Help to Buy (HMT) Ltd was incorporated in 2013 to operate the Mortgage Guarantee Schemes. It closed in 2021.

HM Treasury UK Sovereign Sukuk plc. Incorporated in May 2014, this company's sole activity has been to issue and service Sukuk certificates (similar to bonds, but Sharia-compliant). It is a small operation and need not change.

OTHER BODIES

Sovereign Grant payments. Aimed at supporting the sovereign in their official duties, this funding replaced the Civil List and the three grants in aid for travel, communications, and the maintenance of the Royal Palaces. Parliament, via the Treasury, makes a grant once a year and the royal household deals with things thereafter: the Treasury does not need a further body for this purpose. The 510 staff should transfer to the Royal Household.

The Royal Mint Advisory Committee (RMAC) was established in 1922 by King George V to raise the standard of the design of coins, medals, seals and decorations. It has 12 members but no staff. "The committee usually meets 2 or 3 times a year in London. Members are not paid but can claim expenses to attend meetings." Like other advisory ALBs, this should continue without being a formal body.

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13 UK Infrastructure Bank, last visited September 2022: https://www.ukib.org.uk/about-us

14 UK Infrastructure Bank, 'Strategic Plan 2022', June 2022: https://www.ukib.org.uk/sites/default/files/2022-06/UKIB%20Strategic%20Plan%202022%20-%20Full_1.pdf

15 HM Treasury, 'UK Infrastructure Bank Framework Document', June 2021: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994437/UK_Infrastructure_Bank_Framework_Document.pdf

16 UK Parliament, 'UK Infrastructure Bank Bill', May 2022: https://hansard.parliament.uk/Lords/2022-05-24/debates/E96AA50E-075B-4F70-8DE6-8071EA20F17F/details

17 Global Database, 'IUK INVESTMENTS HOLDINGS LIMITED': https://uk.globaldatabase.com/company/iuk-investments-holdings-limited#div_employees

The Office of Tax Simplification (OTS) was set up in 2010[18] as an independent office of the Treasury, and provides the government with independent advice on simplifying the tax system. It would be unfair to describe the results of 12 years' effort as trivial but the OTS seems more concerned with process than results. The two results recorded in the 2021/22 annual report[19] are allowing those dealing with inheritance tax not to fill in the forms if no inheritance tax is payable and extending the deadlines for reporting property disposals from 30 to 60 days. They also considered moving the financial year end from 5th April to 31st March or 31st December but concluded it was too administratively difficult.

The report does not record staff numbers but, as the wage bill was £868,000, this author guesses around 35. HMRC has its own set-up, the HMRC Administrative Burdens Advisory Board, which can be criticised similarly. The US tax structure is far simpler and could be used as a model for radical reform. Both these units should be closed and replaced by a truly independent body drawn from business academia, rather than the leading firms of accountants who have a vested interest in the status quo.

The Office of Financial Sanctions Implementation (OFSI) helps to ensure that financial sanctions are properly understood, implemented and enforced. In January 2022, the staff numbered 42; this has risen due to developments in Ukraine. Tom Scholar, former HM Treasury Permanent Secretary, was responsible for OFSI although, as a NDPB, OFSI is notionally independent of the Treasury. However, no change is recommended.

The Financial Reporting Advisory Board (FRAB). Set up in 1996, this body's role is to ensure that government financial reporting meets the best possible standards. In 2000 the Government Resources and Accounts Act directed the Treasury to consult appropriate people to advise on financial reporting and standards; the FRAB fulfils this role as an independent body. It is hard to see why the National Audit Office does not carry out this role and just has one seat on FRAB's 21-member board. An NAO template for standardising departmental reporting would be a step forward; but as FRAB is merely an advisory body, there are no staff savings to be made from abolishing it.

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18 Gov.uk, 'Office of Tax Simplification': https://www.gov.uk/government/organisations/office-of-tax-simplification/about

19 Office of Tax Simplification, 'Office of Tax Simplification Annual Report 2021-22', July 2022: https://www.gov.uk/government/publications/office-of-tax-simplification-2021-22-annual-report/office-of-tax-simplification-annual-report-2021-22

This paper started by noting the Treasury's three stated objectives: controlling spending, boosting equality, employment and productivity, and maintaining the financial system. How well does it achieve these objectives?

Pp. 18-22 of the annual report list some relevant statistics, but since the targets are unquantified the report's "key performance indicators" are not an indicator of objective achievement. Nor can they gloss over the fact that the UK economy performed dismally in 2021/22. And in any case, the stated objectives go far beyond the Treasury's remit or capability to achieve. The Treasury should be organised around realistic quantified objectives aligned with executive agencies that could feasibly deliver them.

The October 2016 payroll showed the FTE staffing of the core department as 1,251,[20] not far above the ideal for any government department. The average number employed in 2021/22 was 2,042 (annual report Figure 1B). The (not unreasonable) objective of taking civil service numbers back to pre-Brexit levels would indicate that 791 staff should be saved.

RECOMMENDATIONS

- Government only needs three types of public bodies: the core departments, executive agencies and public corporations.
- Unless the Government Internal Audit Agency can show that it is value for money, which seems unlikely, it should be closed down and auditing should be left to the National Audit Office, saving 435 staff.
- The National Infrastructure Commission should be abolished, saving 40 staff.
- UK Government Investments Limited should absorb UK Asset Resolution and IUK and appears to have enough staff to do that. It should be an executive agency.
- UKGI should absorb UKAR, saving 52 staff.
- The Reclaim Fund Ltd complicates what should be simple and occupy just a single member of the core department. It should be closed, saving 11 staff.
- A way should be found, perhaps through taxation, for the UK Infrastructure Bank's goals to be achieved by the private sector and the 141 staff outboarded.
- Apart from Parliament's annual grant, the Duchy of Lancaster and the body dealing with the Sovereign's financial matters are concerns for the Royal Family, not government. The staff involved should be transferred, but this would not count as savings.
- The Office of Tax Simplification and the HMRC Administrative Burdens Advisory Board go through the motions but are not serious ways to tackle the immense complication of this area. Both should be closed and replaced by a truly independent body drawn from business academia. This would save 35 staff.

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20 HM Treasury, 'HMT workforce management information: October 2016', February 2017: https://www.gov.uk/government/publications/hmt-workforce-management-information-october-2016

- The Financial Reporting Advisory Board is a talking shop that the government could do without. Advice on these matters should come from the National Audit Office.
- HM Treasury should be organised with realistic quantified objectives aligned with executive agencies that could feasibly deliver them.
- The not unreasonable objective of taking civil service numbers back to pre-Brexit levels would indicate that 791 staff should be saved.
- If the recommendations above were all implemented 1,505 staff would be saved, 43.3% of the current 3,473.