

HM Treasury Group Departmental Strategic Objectives - 2008-2011

December 2007



HM TREASURY



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ISBN 978-1-84532-399-8

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VISION

1.1 HM Treasury is the United Kingdom's finance and economics ministry, and is responsible for formulating and implementing the UK Government's financial and economic policy. Reflecting this role, the Treasury Group has set itself two Departmental Strategic Objectives (DSOs) for the 2007 Comprehensive Spending Review (CSR2007) period:

1. Maintaining sound public finances; and
2. Ensuring high and sustainable levels of economic growth, well-being and prosperity for all.

1.2 While these are articulated as two separate DSOs, they are strongly linked and delivery of one DSO cannot be affected in isolation from the other. Each of these DSOs is underpinned by a series of outcomes. The Delivery and Measurement section below sets out the full list of these outcomes, and the indicators the Treasury will use to measure progress against the DSOs over the CSR2007 period.

1.3 The DSOs cannot be delivered without supporting systems, processes, resource management and corporate capability: the Treasury is therefore committed to enhancing the effectiveness and efficiency of its corporate services over the period.

1.4 In addition, the Treasury Group will be a delivery partner for seven of the Government's Public Service Agreements (PSAs) for the CSR2007 period.

Raise the productivity of the UK economy

Deliver the conditions for business success in the UK

Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions

Maximise employment opportunity for all

Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020

Lead the global effort to avoid dangerous climate change

Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals

Delivery against the Treasury Group's DSOs will enable it to fulfil its commitments to these PSAs

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DELIVERY AND MEASUREMENT

2.1 Performance against the DSOs will be assessed through the delivery of a number of outcomes. Table 1 summarises the DSO outcomes and indicators, a fuller description follows. As with the overarching DSOs, a number of these outcomes are linked.

Table 1 - HMT DSO indicators

Indicators for DSO 1: Maintaining Sound Public Finances	
Outcome	Indicators
a. Meeting the fiscal rules	Over the economic cycle, maintain: (i) The current budget in balance or surplus – the golden rule; and (ii) Public sector net debt below 40 per cent of GDP – the sustainable investment rule.
b. Ensuring that the tax yield is sustainable and risks managed	Tax yield over the economic cycle
c. Managing public spending	Differences between: (i) Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) and Public Sector Net Investment (PSNI) at Budget; and (ii) actual outturns as at the End of Year Fiscal Report.
d. Professionalising and modernising the finance and procurement functions in government	Performance at departmental level in timeliness and quality of in-year and external reporting.
d. Professionalising and modernising the finance and procurement functions in government	Efficiency: Savings from take up of collaborative opportunities and other procurement activity. Effectiveness: improvements in the delivery performance of government's procurement capability and capacity.
e. Managing government cash, debt and reserves efficiently and effectively	All operational activities carried out without major error; and appropriate limits and monitoring systems to control financial risks are in place.

Indicators for DSO 2: Ensuring high and sustainable levels of economic growth, well being and prosperity for all

Outcome	Indicators
a. Supporting low inflation	Inflation to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2% as measured by the 12-month increase in the Consumer Prices Index).
b. Promoting the efficiency and fairness of the tax system	Impact of policy measures on taxpayers
c. Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future	Increase in the employment rate of the working age population; and Number of children in relative low-income households (less than 60% of median income before housing costs).
d. Improving the quality and value for money of public services	Progress in delivering on PSA commitments.
e. Supporting fair, stable and efficient financial markets	Assessments of UK financial stability and risk management against international comparisons; and Competitiveness of the UK's system for financial regulation Financial capability and financial inclusion, and Helping to manage the risk from financing of terrorism
f. Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions	Trend growth in output per worker (productivity) over the economic cycle; International comparisons of output per worker and per hour worked; and Regional Gross Value Added (GVA) per head growth rates in each region and between the best and worst performing regions.
g. Protecting the environment in an economically efficient and sustainable way	Increase in the size of the global carbon market; and Increased policy cost-effectiveness.
h. Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity	A stable, efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises; progress towards the Millennium Development goals (as set out in the Government's International Poverty Reduction PSA); and A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness.

DSO 1: Maintaining Sound Public Finances

2.2 To reflect the Treasury's traditional Finance Ministry function, DSO 1 commits the Group to maintaining sound public finances. As with a number of the DSO outcomes, this is a long-held commitment, and one not limited to the current spending period. The DSO is underpinned by five specific outcomes which, when taken together, will define success in delivering on this DSO:

- a) Meeting the fiscal rules;
- b) Ensuring that the tax yield is sustainable and risks managed;
- c) Managing public spending;
- d) Professionalising and modernising the finance and the procurement functions in government; and
- e) Managing government cash, debt, and reserves efficiently and effectively.

a) Meeting the fiscal rules

2.3 The *Code for fiscal stability* requires the Government to state both its objectives and the rules through which fiscal policy will be operated. The government's fiscal policy objectives are:

- Over the medium term to ensure sound public finances and that spending and taxation impact fairly within and between generations;
- Over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

These objectives are implemented through two strict fiscal rules. That over the economic cycle, the Treasury will maintain:

- The current budget in balance or surplus – the golden rule; and
- Public sector net debt below 40 per cent of GDP – the sustainable investment rule.

Adherence to these two rules is the measure of success against this DSO outcome.

b) Ensuring that the tax yield is sustainable and risks managed

2.4 The Treasury aims to ensure a sustainable total tax yield over the current and future economic cycles, which support spending needs, consistent with the fiscal rules. In meeting this vision, the Treasury will endeavour to ensure:

- a strategic approach to tax policy which supports a wide and sustainable tax base;
- specific tax policy measures are consistent with this; and
- risks to yield – both overall and for individual taxes – are identified and managed.

2.5 Success against this outcome will be measured through monitoring of the tax yield, as set out in the Financial Statement, Budget Report and Pre-Budget Report.

c) Managing public spending

2.6 The Treasury aims to ensure the short, medium and long term sustainability of total public expenditure in line with the fiscal rules. The ultimate indicator for effective management of public spending is whether the government is meeting the fiscal rules. However, a more proximate target is that public spending levels are close to the amount planned, as this indicates both budgetary discipline and forecasting effectiveness and is the specific public spending contribution to the fiscal rules. As such, performance on managing public spending will be monitored through the differences between:

- (i) Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) and Public Sector New Investment (PSNI) at Budget; and
- (ii) Actual outturns as at the End of Year Fiscal Report.

2.7 Spending may differ from plans at departmental level for a number of reasons, but the Treasury will provide a narrative alongside reporting which will set the context for these differences.

d) Professionalising and modernising the finance and procurement functions in government

2.8 This DSO outcome covers two linked but distinct agendas, both of which build on work undertaken in the previous spending review period to bring about a step change in the finance and procurement functions in government. The indicators for both these agendas represent the Treasury Group's ongoing commitment to embedding and enhancing professionalism.

2.9 For the finance professionalism agenda, the Treasury will promote the development of the finance community in government by:

- Strengthening the capability and capacity of finance professionals and improving the finance skills of 30,000 civil servants in line with the Professional Skills for Government Agenda;
- Supporting and enabling department Finance Directors and other senior finance professionals to improve financial and performance management through government; and
- Developing the internal audit profession and the standards for internal audit in government.

Key headline indicator for success in this area will be:

- Enhanced performance at departmental level in timeliness and quality of in-year and external reporting – measured through individual departments performance against faster closing deadlines and number of qualified accounts.

2.10 For the procurement agenda, as set out in Transforming Government Procurement, the Office of Government Commerce will ensure an improved procurement capability across government, and maximised value for money from procurement, including in procurement of the civil estate. The key elements of the programme are:

- Reform of the Government Procurement Service;
- Raising standards through procurement capability reviews of departments;
- Application of collaborative procurement across government;
- Setting an appropriate policy and legal framework for procurement;
- Improving the value for money of major government projects through the Major Projects Review Group and Gateway; and
- Improving value for money through better management of the Government's estate.

2.11 Detail on each of these areas is set out in Transforming Government Procurement. The Treasury Group's headline indicators for measuring success against this aspect of DSO 1 are:

- For efficiency – savings from take up of collaborative opportunities and other procurement activity; and
- For effectiveness – the extent to which the performance of government's procurement capability and capacity improves through the CSR2007 period.

e) Managing government cash, debt and reserves efficiently and effectively

2.12 Cash, debt and reserves must be managed effectively and efficiently with remits met and minimal operational error or disruption in order to protect the Exchequer from financial and reputational risk over the short, medium and longer term. This outcome is delivered by and through a number of entities and agencies, such as the UK Debt Management Office, National Savings and Investments, and the Bank of England. These entities and agencies publish performance data against their own basket of indicators.

The key headline measures of Treasury's performance in managing the government cash, debt and reserves are that:

- All operational activities are carried out without major error; and
- Appropriate limits and monitoring systems to control financial risks are in place.

DSO 2: Ensuring high and sustainable levels of economic growth, well-being and prosperity for all

2.13 Alongside the Treasury's traditional Finance Ministry role, the Treasury is also the Economics Ministry for the UK Government. The department will ensure high and sustainable levels of economic growth and prosperity for all by:

- a) Supporting low inflation;
- b) Promoting the efficiency and fairness of the tax system;
- c) Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future;
- d) Improving the quality and value for money of public services;
- e) Supporting fair, stable and efficient financial markets;
- f) Raising productivity with sustainable improvements in the economic performance of all English Regions including narrowing the gap in growth rates between the best and worst performing regions;
- g) Protecting the environment in an economically efficient and sustainable way; and
- h) Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

a) Supporting low inflation

2.14 Price stability is an essential pre-condition for achieving the Government's central objective of high and stable levels of growth and employment. Maintaining low and stable inflation, therefore, is the best contribution monetary policy can make to this objective. The Treasury's role is to manage the monetary policy framework, which means defining the inflation target that the Monetary Policy Committee (MPC) must aim for at all times. The Treasury also oversees the appointments process for the four external MPC members, and must ensure that they bring a relevant mix of skills and experience to the Committee. Finally the Treasury must ensure that both fiscal policy and public sector pay settlements continue to support and complement monetary policy.

2.15 This is a long standing Treasury aim, defined over a longer period than that covered by CSR2007: the current monetary policy framework has been in place since the Bank of England Act was passed in 1998.

2.16 The primary indicator used to measure the success of both the monetary policy framework and the MPC itself is annual inflation of the Consumer Price Index (CPI). As set out in the remit, and which is confirmed by the Chancellor in each Budget, the Bank of England has an inflation target of 2 per cent at all times for the 12-month rate of CPI inflation, and if inflation should deviate from this target by more than one percentage point, the Governor must write an open letter of explanation to the Chancellor. The Treasury will continue to monitor and report performance against this target.

b) Promoting the efficiency and fairness of the tax system

2.17 The Treasury will continue to promote the efficiency and fairness of the tax system by developing tax policy in a way that:

- Minimises HMRC's and taxpayers collection/payment costs ("operational efficiency");
- Minimises deadweight costs and effectively targets market failures where appropriate ("economic efficiency"); and
- Gives due regard to impact on different groups and individuals ("fairness").

2.18 This builds on the vision set out in the 2004 O'Donnell Report. The aim is not to achieve a particular design for the tax system, but to ensure that the Treasury's performance in developing tax policy is visibly assessed against indicators of efficiency and fairness, and to ensure a policy development process which embeds consideration of these principles. The indicator for measuring success will be the direct impact of policy measures on taxpayers.

c) Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future

2.19 The Treasury aims to drive the tax and welfare reform agenda to make further progress towards:

- The long-term goal of employment for all, helping more people to enter, remain and progress in paid employment;
- Increasing the welfare of children, including meeting the ambition to halve child poverty by 2010 on the way to eradicating child poverty by 2020;
- Promoting saving and asset ownership for all across the lifecycle from childhood, through working life and into retirement; and
- Maintaining the welfare of current and future pensioners with a pension system that protects the incomes of the poorest pensioners and which is understandable, with appropriate information and incentives to enable households to make informed choices about working and saving for retirement.

2.20 This is underpinned by the principle of progressive universalism – providing support for all and greater support for those who need it most.

2.21 Progress against this outcome will be measured through the following top-level indicators:

- Increase in the employment rate of the working age population; and
- Number of children in relative low-income households (as defined as less than 60% of median income before housing costs).

2.22 This outcome will also enable the Treasury to meet its commitments to the employment and child poverty PSAs as set for the CSR2007 period.

d) Improving the quality and value for money of public services

2.23 This outcome seeks to achieve measurable increases in outcomes in all the Government's priority areas over the CSR2007 period, reflecting a significant

improvement in the quality of public services. In addition to these improvements at the front line, value for money will improve so that every pound of investment will deliver more. Departments are responsible for ensuring delivery of their Public Service Agreement (PSA), DSO and Value for Money (VfM) commitments. The Treasury's role is one of support and challenge in helping them to deliver. Performance will be measured by the government's progress in delivery of PSA commitments through the CSR period, while living within the spending limits it has set itself (with the latter being measured under our "Managing Public Spending" outcome).

e) Supporting fair, stable and efficient financial markets

2.24 Financial markets play a unique and vital role in the wider economy and society in the UK and globally by:

- Intermediating between borrowers and savers;
- Helping firms and households to manage risks; and
- Enabling wealth to be stored, accessed and transferred.

2.25 Financial services contribute significantly to UK GDP, employment and productivity both directly and as an essential enabler for other business, helping to underpin economic growth and prosperity for all and enabling the UK to take a key role in a global economy. However, failure of financial markets can also pose risks to economic stability and welfare. Managing these risks is a vital part of the work of the Treasury, in partnership with the Financial Services Authority (FSA) and Bank of England. Financial crime and financing of terrorism constitute further threats. The Treasury aims to maximise the contribution of financial markets to economic success, through markets that operate efficiently and fairly. The Treasury is responsible for the policy and legislative framework for regulating financial services, and in particular for the Financial Services and Markets Act (FSMA) and amendments to it, which gives day-to-day responsibility for setting and implementing rules to the FSA.

2.26 Progress against this outcome will be measured through the following indicators:

- Assessments of UK financial stability and risk management against international comparisons;
- The competitiveness of the UK's system for financial regulation as reflected in surveys conducted by the City of London Corporation and others comparing the UK to other jurisdictions, plus progress against the published simplification plan target of a 25 per cent reduction in the regulatory administration burden;
- Financial capability and financial inclusion, as measured through the FSA Financial capability survey and access to bank accounts and;
- Helping to manage the risk from financing of terrorism as set out in data and monitoring of asset-freezing reported quarterly to Parliament.

f) Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions

2.27 The Treasury's ambition is to see sustainable improvements in economic output at a national level and in every English region including a narrowing in the gap in growth rates between the best and worst performing regions. This will be driven by increased productivity – the key determinant of output growth in the long-term. The Treasury will support this vision through its own policies, and by encouraging and challenging other parts of the public sector to develop and deliver policies that contribute to achieving the outcome.

2.28 The top level success measure for this DSO outcome will be the progress made against the PSAs to which it contributes: 1. Raise the productivity of the UK economy; 6. Deliver the conditions for business success in the UK; and 7. Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions. However, we will assess the Treasury's specific contribution to delivery through three key indicators:

- Trend growth in output per worker over the economic cycle;
- International comparisons of output per worker and per hour worked; and
- Regional Gross Value Added (GVA) per head growth rates in each region and between the best and worst performing regions.

g) Protecting the environment in an economically efficient and sustainable way

2.29 The Treasury has a key role in delivering the Government's commitment to sustainable development, including environmental protection¹. The Government's PSA set, combined with the totality of DSOs, encapsulate the key priorities of sustainable development. The Treasury's aim is that there is sustained and sustainable economic growth: neither environmental challenges nor policies to tackle them place a significant brake on economic growth, now and in the longer term. The Treasury will seek to achieve its economic objectives alongside the environment limits recognised in the Government's PSA on a healthy natural environment. The Treasury has a particular contribution to the Government's environmental priorities in ensuring that policies are efficient, effective and economically sustainable. This will be achieved by designing the Treasury's policies and challenging others' to ensure they are economically sensible, value for money, and affordable within overall fiscal constraints, including through appropriate use of fiscal instruments.

2.30 Performance against this outcome will be measured through two headline indicators which form part of the Climate Change PSA, reflecting both the relative importance of climate change and indicators on which the Treasury has relatively greater impact:

¹ The Treasury's sustainable development action plan sets out the links between Treasury's objectives and those of sustainable development. http://www.hm-treasury.gov.uk/media/9/1/sustainable_development160807.pdf

- Increase in the size of the global carbon market: a viable international carbon trading system is a vital component of a achieving a global low carbon economy in an economically efficient and sustainable way, since it both sets limits on emissions and allows reductions to be made where most cost effective. Increasing size will also indicate market confidence in the likelihood of effective action to tackle climate change, since firms and countries will be more willing to participate and invest, the more they believe that action is likely; and
- Increased policy cost-effectiveness: as a finance and economics ministry, the Treasury has a role to play in ensuring climate change is tackled in as cost effective a way as possible, contributing to sustained and sustainable growth.

2.31 Delivery of this outcome will support the delivery of the Government's PSA on Climate Change.

h) Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity

2.32 Our aim is for high and sustainable levels of economic growth and prosperity in the EU and world economy through increased productivity, efficiency and opportunity in the EU; policies that support greater openness and more competitive global markets; and an effective international system and EU that promotes financial stability and tackles the global challenges of climate change, protectionism and poverty reduction. In this way, and through effective cooperation and engagement with our international and EU partners, we aim to support the open and stable international economic environment on which UK growth and prosperity depends.

2.33 The Treasury has significant influence over the policy debate and over international structures which it will use to make progress on its objectives. Performance will be measured through a number of high-level indicators which describe how success will be characterised:

- A stable, efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises;
- Accelerated progress towards the Millennium Development Goals (as set out in the Government's International Poverty Reduction PSA); and
- A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness.

2.34 Due to the nature of the Treasury's primarily influencing role in this area, it is difficult to set quantitative outcomes. The Treasury intends to monitor our performance in influencing the policy debate and the international structures we use to make progress on our objectives by taking as our milestones the outcomes of key events, including: EU and international finance ministers meetings; the annual debate on Lisbon by the Spring European Council; the National Reform Programmes; and the Commission's Annual Progress Report on Lisbon.

ISBN 978-1-84532-399-8



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