"The Coalition's success depends on whether the Treasury can deliver…"

NATIONAL TREASURE

Kitty Ussher
Imogen Walford

DEMOS

Demos is a think-tank focused on power and politics. Our unique approach challenges the traditional, 'ivory tower' model of policy making by giving a voice to people and communities. We work together with the groups and individuals who are the focus of our research, including them in citizens' juries, deliberative workshops, focus groups and ethnographic research. Through our high quality and socially responsible research, Demos has established itself as the leading independent think-tank in British politics.

In 2011, our work is focused on four programmes: Family and Society; Violence and Extremism; Public Interest and Political Economy. We also have two political research programmes: the Progressive Conservatism Project and Open Left, investigating the future of the centre-Right and centre-Left.

Our work is driven by the goal of a society populated by free, capable, secure and powerful citizens. Find out more at www.demos.co.uk.

First published in 2011

Magdalen House, 136 Tooley Street,
London, SE1 2TU, UK

ISBN 978 1 906693 63 3
Series design by modernactivity
Typeset by Chat Noir Design, Charente
Printed by Lecturis, Eindhoven

Set in Gotham Rounded
and Baskerville 10
Cover paper: Flora Gardenia
Text paper: Munken Premium White

NATIONAL TREASURE

Kitty Ussher
Imogen Walford

DEMOS

Contents

Acknowledgements

The authors would like to thank all those individuals and organisations who gave freely of their time to provide insights based on years of experience inside and outside of government. These included former and current senior civil servants, politicians and special advisors as well as academics and individuals who work in organisations that deal with the Treasury. For understandable reasons their views have been anonymised in the text.

We are particularly grateful to those who attended our seminar held at Demos in late November 2010, and to the CBI Tax Committee who permitted us to attend one of their meetings to ask their views and perspectives. In addition, our thanks go to Sonia Sodha and Richard Reeves who had the original idea.

Kitty would like to thank Paul Johnson who worked alongside this project from the beginning and contributed the preface to the work in his own name.

Kitty Ussher
Imogen Walford
March 2011

Preface

The Treasury has always been vitally important not just to economic policy, but to the effectiveness of government. That is true now more than ever. It is first and foremost the responsibility of the Treasury to bring the biggest fiscal deficit in more than 60 years under control.

One cannot help but question whether any institutional difference in structure, expertise, accountability or behaviour could have helped forestall any of the fiscal problems we now face. Even more urgent is the question of whether going forward the Treasury is best placed to deal with tax reform, with the biggest spending cuts in more than half a century and with the overhaul of financial regulation.

So this is a most timely publication. Kitty Ussher has brought her perspective as a former Treasury minister to bear on questions of the Treasury's role, its way of working and its accountability. Working with her, I developed my own perspectives as a civil servant in a spending department – the Department for Education – and then in the Treasury itself. I now take more than a passing interest in it from my vantage point at the Institute for Fiscal Studies. I have no doubt that we would all benefit from subjecting the Treasury as an institution to considerable scrutiny. It is just too important to leave to its own devices.

Several themes stand out from this document: of accountability, of internal structures and staffing, and of the sheer range and degree of responsibility that reside within one relatively small organisation. Accountability is a crucial issue for an organisation like the Treasury. It is itself at its best as a bulwark against poor spending decisions elsewhere. But where is the bulwark against the Treasury? With little effective accountability from other parts of the executive, more effective systems of oversight from Parliament look important.

Internal structures and staffing are also crucial. The report documents the almost universal view of stakeholders that Treasury staff are phenomenally able, but remarkably lacking in experience. And experience matters. In 1170 Richard, Treasurer of England, wrote that ‘the highest skill of the Exchequer does not lie in calculation but in judgements of all kinds’. And as Denis Healey observes, ‘to make good judgments… you have to have a great deal of experience’.[1]

When I was at the Treasury I worked primarily on spending issues. The issues we faced at the time, before the recession, look inconsequential relative to those now faced by Treasury spending teams, and indeed by the whole government. The 2010 Spending Review set out the figures which, if adhered to, will add up to the biggest spending cuts since the war. But the Treasury’s job is not done, and that of the government as a whole has barely begun. Implementing these cuts, and implementing them in the most effective way, remains a formidable challenge.

I am now especially focused on tax policy. It is not an exaggeration to claim that there has been no real strategy for tax policy articulated by any government since Nigel Lawson was chancellor in the 1980s. Contrast that with the numerous attempts to articulate strategy in many other parts of public policy – health and education in particular. Over the years, the lack of a strategy has been associated with unnecessary confusion, complexity and uncertainty in tax policy.

The case for a better way of making tax policy is strong. The specifics of the way Treasury and HMRC work together are an important part of this, but the need for overall direction, a well-informed debate and stronger parliamentary accountability are paramount.

There have been welcome changes recently. The setting up of the independent Office for Budget Responsibility, and concomitant greater increase in transparency on public finance forecasts, has been a big step forward in improving trust and clarity in fiscal policy. The Office of Tax Simplification has the potential to improve policy making. The further ideas set out here deserve to be considered and debated very widely.

Paul Johnson
Director
Institute for Fiscal Studies
March 2011

Introduction and summary

In the wake of the student protests in November, anarchic symbols were left scrawled across Whitehall walls: 'revolution' on the old stone. On the Treasury, the words could not have jarred more with their surroundings; the call to arms small on a towering bastion of the state. The Department has seen off so many challengers in its lifetime, the complaints of student protestors were easily dismissed.

Yet that is not to say that the Treasury itself is not in need of reform. With a change of government comes an opportunity to consider whether this institution is in fact fit for purpose. This short piece of research is designed to do that. Our aim is to make recommendations that will make it more likely that Britain's economic policy will be better designed, scrutinised and implemented, which is ultimately in the interests of the public.

The power of the Treasury in recent years, both inside and outside Whitehall, has not been conducive to a debate about how best to achieve reform. During the ten years that Gordon Brown was chancellor, from 1997 to 2007, his own personal power in government and the apparent success of macro-economic policy at that time meant there was little incentive to question the Treasury as an institution. With inflation and interest rates simultaneously low, growth strong and expected to remain so, unemployment at record low levels and the public finances stable, there did not seem to be a long list of problems queuing up at the Treasury's door.

However, since 2007 two things have changed. First, the financial crisis has raised questions that were previously absent. Could the department have done more to insulate people in the UK from this global financial shock? Why did its economic forecasts in 2007/08 turn out to be so over-optimistic? Is it cut out for its extraordinary task of eliminating the structural deficit?

Second, a change of government, coupled with the department's own need to cut costs, has led to an outflow of people who were previously working at the heart of the institution. This gives an opportunity to canvass views from those who had previously not been available for interview on how things might work better. The research for this pamphlet has included off-the-record conversations with around 30 former senior civil servants, advisers and ministers speaking on the subject for the first time, as well as the experiences of many of those outside government who routinely deal with the Treasury. Where possible, we also took the informal views of current civil servants. It therefore represents a new and rich seam of experience from which policy conclusions and recommendations can be drawn. Throughout the text we make reference to these interviews, giving as much detail as possible to the interviewees' backgrounds without enabling them to be identified.

In addition, the authors themselves bring considerable personal experience to the table. Kitty Ussher, now Director of Demos, was a Treasury minister twice in the period 2007–09, a member of the Public Accounts Committee from 2005/06, the Finance Bill Committee in 2007, 2008 and 2009 and had previously from 2001–04 worked closely with the Treasury in her role as a special adviser in the then Department of Trade and Industry. Paul Johnson, who had significant input into the main report, and who writes the preface in his own name, was formerly head of microeconomics at the Treasury from 2004 to 2007. In January 2011 he became the Director of the Institute for Fiscal Studies. In addition to drawing on the experience of these authors and the views of interviewees, Demos' junior economist, Imogen Walford, conducted an extensive literature review that put the views of practitioners in the context of what others have previously concluded. This enabled us to discern the extent to which what we were hearing was a result of the choices of personalities as opposed to something fundamental about the nature of the organisation we were studying.

Different people have of course emphasised different things to us during the course of this research. But few have questioned the need for reform. In fact, most have agreed strongly with the premise. The youthful over-confidence of Treasury workers, the absence of accountability for decisions, confusion over the Treasury's role as a policy department within Whitehall and specific problems in the setting of taxation policy recurred repeatedly as themes in our conversations. For some interviewees, the problems of the Treasury elicited a weary shrug, the sense that there are some civil service issues that will never be fixable. For others, there was a very real sense of crisis; a former chair of the Treasury Select Committee warned us for example that people 'are being too complacent about the Treasury'.

John Maynard Keynes once compared the Treasury's control to private morality: 'there is a great deal of it rather tiresome and absurd once you… look into it… nevertheless it is an essential bulwark against overwhelming wickedness'.[2] In this pamphlet we aim to separate the merely tiresome yet necessary elements of having a government department that deals with tax and spend from the problems that prevent it acting as an effective bulwark. Not so much against Keynes' 'wickedness' but the threat that people living and working in this country might have their lives unnecessarily disrupted by economic policy making that is not as effective as it might have been.

Research findings

We set out during the course of our research to ask four main questions.

First, we asked questions about internal issues around organisation, scope and mission. What is the Treasury like as an institution to work in? Does it organise itself in the most effective way? Does it understand what its job is, and is it concerned with the right things?

Second, we asked questions about external issues around accountability, in particular to Parliament and through that to the public. Are there effective checks and balances between legislative and executive? Can there be more effective scrutiny to improve the policy-making process and aid public understanding, both of the detail – such as individual measures in the Finance Bill – and big picture issues, such as the overall economic effect of a budget?

Having dealt with institutional issues, we then asked questions around the two main functions of the Treasury: taxation and spending. On taxation, we set out to explore the relationship between the Treasury and HM Revenue & Customs (HMRC), asking whether it was conducive to effective policy making, and also explored the way in which decisions on tax rates are made.

Finally, on spending we look at the effectiveness of the department as a body able to keep hold of the purse strings across Whitehall and in particular whether there are changes to the accounting systems used in Whitehall that could aid the decision process on spending.

We summarise our main findings below.

Organisation and scope (chapter 1)

During our research, the following themes emerged.

First, the Treasury as an institution has a tendency to value youth over experience, which combined with a rapid rotation of staff and an extreme version of the Whitehall phenomenon of the cult of the generalist, not only erodes institutional memory but also leads to accusations of arrogance.

Second, the Treasury was inconsistent about its relationship with the banks, epitomised by confusion as to whether or not it was indeed the 'sponsor' department for the financial services sector. We found strong views on both sides of the debate as to whether financial services policy would be better off sitting in the Department for Business, Innovation and Skills (BIS).

Third, we found clear approval, which the authors concur with, for the establishment of the new Office for Budget Responsibility outside the Treasury, and a desire that it be given the chance to establish credibility above the political fray.

We recommend:

- Career structures within the Treasury be reviewed with a view to providing greater stability in middle management posts.
- Day-to-day issues on financial services regulation and competitiveness within government should pass to BIS, along with appropriate resources, with only a residual team remaining at the Treasury retaining a watching brief on issues relating to systemic instability. The city minister should straddle both departments, so he or she can best represent British financial services interests as required in a variety of EU forums.
- The Office for Budget Responsibility should be given time to settle down with its current responsibilities. It should have the freedom to enter into debates about the role of different possible fiscal targets, including the difficulties associated with targeting the 'structural deficit'.

Accountability (chapter 2)

We found a unanimous view that parliamentary scrutiny of the Treasury could be more effective. The passage of the Finance Bill through Parliament was widely considered to be a joke: the technical nature of the subject matter was not conducive to meaningful discussion by MPs.

At the same time Parliament was denied the ability to consider some of the big economic questions of the day since MPs lacked rigorous independent information in a format that was useful to them.

We recommend:

- The Finance Bill should be considered by the Lords as well as the Commons.
- A new select committee specifically on taxation policy should be established to run in parallel with the Treasury Select Committee.
- A UK Parliamentary Budget Office, functioning as an economic library for MPs. This would be based on the US Congressional Budget Office and should be established to provide rigorous independent analysis to Parliament on topical matters relating to economic policy.

Tax (chapter 3)

We found that, despite recent changes in this area, the relationship between the tax policy officials in the Treasury and their counterparts at HMRC is perceived by many inside and outside government as potentially problematic and as having the potential to contribute to bad policy making.

We also found deep disquiet across industry, and to a certain extent in government, at the tendency of ministers to make last minute and unexpected changes to tax policy in the run-up to a budget. There was a desire for an overall document such as a white paper that summarised the principles of taxation policy. Recent initiatives such as establishing the Office of Tax Simplification (OTS) have proved welcome, but are as yet untested in their ability to effect change.

We recommend:

- In the medium term, the creation of a taxation career stream within the civil service that spans HMRC, the Treasury and other departments, similar to that already in effect for economists and statisticians. We also recommend the drafting of a framework document setting out clearly and publicly the roles of HMRC and the Treasury and officials within them with a presumption that better ways need to be found to involve the expertise of HMRC officials in the design of policy.
- The correction of the anomaly that the minister in charge of spending, the chief secretary, is of cabinet rank, whereas the minister in charge of taxation and HMRC, the financial secretary, is not. We propose that the chief secretary should have the additional responsibility of overseeing tax policy.
- The chancellor should publish an overall strategy for tax policy. This should increase certainty and allow Parliament and commentators to test actual announcements against the stated strategy. It could take as its starting point the government's response to the Mirrlees review of taxation, hosted by the Institute for Fiscal Studies, the full report of which is expected in 2011. Moreover, the chancellor should establish the principle and precedent of appearing before the new taxation select committee within two weeks of a budget to explain how the tax decisions he has just announced relate to this strategy document.

- The OTS should have its remit broadened so it is able to consider changes to tax rates and tax bases and have more of a roving brief on policy and particularly new policy development as long as this is done in the overall interest of simplification, without necessarily altering yield.

Spend (chapter 4)

Clearly spending control will be a central role for the Treasury in the coming years. In the spending review the Treasury, along with departments, has set out a radical and formidably challenging set of cuts.

Interviewees were concerned that the ability of the Treasury to have an effective role in overseeing these cuts could be thwarted by a relative lack of expertise and experience within the Treasury, and also by the need to develop further the Treasury's ability to judge and quantify the effects of change across government. In particular, a current concern appears to be that the creation of a new Efficiency and Reform Group in the Cabinet Office is causing confusion as to which bit of Whitehall is responsible for value for money issues.

While progress was made in accounting practices during the last government, there is further to go, for example in quantifying the benefits across the entire public sector of longer-term investment to save projects.

We recommend:

- Treasury spending teams should be strengthened by the more structured use of individuals with significant experience in policy and spending control within departments.
- There should be no diminution of the clarity of the role of Treasury in spending control and evaluation of value for money of government programmes. For example, the role of the Efficiency and Reform Group in the Cabinet Office should not develop so as to challenge or confuse the legitimate primacy of the Treasury in this area.
- The Treasury should invest further in improving the way in which expenditure is accounted for and in understanding the

costs and benefits of specific changes. It should look closely at the interactions between departmental expenditure limit (DEL) and annually managed expenditure (AME) spending, looking to control the two together where possible. And it should explore further how to make long term 'spend to save' programmes which might work across government more feasible.

Overall, the Treasury is an impressive institution, capable of attracting the brightest and the best. It is also capable of change: its scope has also altered greatly over time, despite its monolithic reputation. Indeed recent innovations – the establishment of the Office for Budget Responsibility and the OTS for example – are very welcome.

This tension between the ancient nature of the institution and the change it has gone through was captured by Nicholas Macpherson, current Permanent Secretary, in a keynote speech last year: 'There are two things we can be sure of: the Treasury will continue to change, and it has an irreducible core that endures. It is at its heart a finance and economics ministry.'[3] Yet at the same time, the fact that it is two ministries in one can also cause conflict; as one former civil servant told us, 'There are trade-offs and tensions between the two.'

Although the research for this pamphlet does not dwell on personalities there is little doubt that the relationship between the chancellor and his or her prime minister is key. The position of chancellor is painful for being simultaneously so close to the premiership and yet so far: Punch's advice in the nineteenth century to those thinking of becoming chancellor was, quite simply, 'don't'.[4] Even the title 'First Lord of the Treasury' actually belongs to the prime minister. Throughout history the power of the institution has been intertwined with the power of the chancellor, whose relationship with the prime minister can determine the fate of a government.

Over the next few years, the necessity of delivering public service reform at the same time as an unprecedented cut back in public finances will once again test the Treasury to its core. Further changes will be required. Our task has been to trawl the available expertise to make the recommendations to support that process.

1 Organisation and scope

'A uniquely powerful department – monolithic, mysterious and sometimes a little menacing'; Henry Roseveare's description of the Treasury from 1969 captures the essence of its mystique.[5] Feared by other departments for its power, the intellects that have worked behind its doors have also inspired respect.

As it holds the country's purse strings, the Treasury has huge power within Whitehall. As mentioned in the previous chapter, it acts as both the ministry of finance and the economics ministry, roles that in countries such as the USA, Canada and Australia are divided into two. As an economics ministry, the Treasury controls the macroeconomic policy framework and some regulatory roles, and increasingly keeps a focus on micro-economic policy. In a globalised world, the Treasury also takes a role as a foreign economic policy actor: it participates as a permanent representative on the International Monetary Fund (IMF); manages exchange reserves and leads on budgetary and economic negotiations in the European Union.

The Treasury has been consistently feared throughout its history for its protection of the state's coffers. James I believed that 'all Treasurers, if they do good service to their masters, must be generally hated'.[6] Centuries later, the then serving Prime Minister, Lord Salisbury, felt that the power of the Treasury stretched beyond that of its nominal master. He attacked the Treasury for having 'the power of the purse, and by exercising the power of the purse, it claims a voice in all decisions of administrative authority and policy. I think that much delay and many doubtful resolutions have been the result of the peculiar position which, through many generations, the Treasury has occupied.'[7] Such fear demonstrates the importance of its role in Whitehall. So pre-eminent is the Treasury that it has been called the 'department of departments'.

In recent years, its strength was at its peak during the ten years that Gordon Brown was chancellor. Yet, famously, one of Brown's earliest acts was to give away one of the Treasury's powers when he ceded monetary policy to the Bank of England. In this he brought the Treasury into line with the American Federal Reserve and the German Bundesbank models of separating fiscal and monetary economics. Yet it also provided the scope to fulfil his vision for the Treasury as a policy department. In 1997 Brown explained to staff,

the role I see for the Treasury in the future… is more policy-orientated because we're talking about big policy changes in our country to make our economy more prosperous and to give opportunities to many people who have been excluded from opportunities.[8]

In the main, this speech represented the mission of a man who believed in redistributing wealth to the most vulnerable while encouraging business growth, and saw that this is something that could be achieved through a more interventionist Treasury. Over his period in the chancellorship, Brown initiated 41 policy reviews and dominated the policy landscape; Sure Start, one of the defining reforms of the Labour Government, for example, was 'owned' as a policy by the Treasury.

In another way, however, it was all about power. Brown's position within the Labour Party as an alternative power base gave him every incentive to engage in what became known as Treasury 'bounce', where other departments would find out at the last minute that the Treasury had secretly been working on policy documents that directly affected their own spheres of influence. It became, arguably more than ever before, a 'policy' department with the ability to dictate not just the spending levels of other departments but their direction of travel as well.

The shift in the Treasury's role towards policy attracted criticism. Lord Turnbull, Permanent Secretary to the Treasury from 1998 to 2002, complained about the fact that the Treasury had become a 'policy department' in an interview he gave to the *Financial Times*.[9] The Treasury Select Committee warned as early as 2001 that the Treasury had begun to 'exert too much influence over policy areas which are properly the business of other departments and that this is not necessarily in the best interests of the Treasury or the Government as a whole'.[10] Similarly, many of our interviewees argued that the Treasury had overstepped its remit by 'owning' particular policies.

This however seems to have been a peculiar effect of the Brown chancellorship. Incidents of Treasury 'bounce' became rarer when Brown moved to become prime minister in mid-2007; his successor Alistair Darling was mainly preoccupied by the banking crisis that ensued. And there is evidence of a more collegiate approach to policy making since the 2010 election. As discussed in chapter 4, our research supports the Treasury playing a proactive role in evaluating the efficiency and value for money of projects, but we do not think it should routinely be an initiator of policy in isolation from other departments.

The remainder of this chapter considers the character and personnel of the Treasury before discussing other institutional issues that have arisen during the course of our research: whether the economics and finance functions should be split, the role of financial services policy, and the recent innovation of the creation of the Office for Budget Responsibility.

Character and personnel

The key to understanding the Treasury of today lies in the Fundamental Expenditure Review (FER) of 1994, which led to a major shift in the internal workings of the department.

The FER was initiated by Michael Portillo, then chief secretary, following the humiliation of sterling's ejection from the Exchange Rate Mechanism. But even before then, the Treasury had already begun to ask hard questions of itself. Howard Davies, now head of the London School of Economics, led an away-day at Chevening in early 1992 to present his consultancy findings on the department to officials; one recalled:

The Treasury was rude, abrupt and lacking in corporate memory. It makes decisions for the day, not for the long term. It mixed up control and influence. People had no clear view as to their relations with those who work *for them or their superiors… There was no systematic process of deciding what the Treasury should be doing.*[11]

A former senior civil servant summarised the findings to us as 'everything we should be doing, we weren't and everything we shouldn't be doing, we were'.

The result of the ensuing shake-out was to alter the character of the Treasury, creating a culture in which the personnel are young, intelligent, yet relatively inexperienced and in which rapid promotion is the trade-off for low pay. The quality of Treasury brainpower is still admired, with one former special adviser describing the department as having a 'first-class talent pool, by far the best in Whitehall'. But while this brings benefits for the staff themselves, intellect does not compensate for inexperience. One former Treasury civil servant, telling us about their role in the recent financial crisis, was proud of his ability to assimilate information quickly on any area rather than being a specialist. What he presented as a positive could seem more alarming to the outsider's eye, especially considering the importance of the decisions made.

The FER also led to a major 'de-layering' in the number of Treasury staff. One member of staff confessed to feeling 'physically sick' as a result of this 'implicit reduction in jobs'.[12] In 1963, the Treasury had five permanent secretaries and seven deputy secretaries; currently it has two permanent secretaries and five deputy secretaries.

The effect of the FER was to change the organisational structure of the Treasury, removing a layer of middle-management civil servants, placing more responsibility on younger and less experienced members of staff. The FER intended this effect, stating in the review:

We believe that as much responsibility as possible should be delegated down the line. The structure we have proposed assumes that Treasury directors and their directorate management teams will in future play a more managerial and strategic role.[13]

At the time, this shift in personnel responsibility was a positive development. The bureaucratic grades of the Treasury had placed seniority above talent. And, for many young civil servants given stimulating roles the post-FER structure is very welcome. As a former civil servant told us, 'The Treasury has younger and younger people, who choose what jobs they want to go into.' This has had some positive effects on morale: one former special adviser told us 'there is a real sense of camaraderie at the Treasury'. He said it was the only department where you could successfully ask people to come in at the weekend, 'you could in other departments but they wouldn't show up'. The youthfulness of the staff brings increased levels of enthusiasm and, without the commitments of family, a willingness to work longer hours.

But for the individuals concerned, this is not a sustainable situation. As one former civil servant told us, people 'work in the Treasury in their twenties then start having families and doing other things'. In the words of Gus O'Donnell, now cabinet secretary, 'if you want to get on, get out'.[14] It was common, according to a former civil servant, that 'people went away and then came back again', because they were unlikely to be promoted through a single stream in the department. Stakeholders and Treasury insiders often told us that personnel issues, particularly high turnover with people either leaving the Treasury for other Whitehall jobs or leaving the civil service entirely, led to poor policy making.

This two-tier system of ambitious juniors and senior managers arguably contributed to a climate where there was little routine questioning of underlying assumptions. As one special adviser said, with feeling, 'the biggest problem with the Treasury is its sycophancy'. Others thought that was too strong. A former civil servant we spoke to said that bright officials would be keen to argue their corner but ultimately wanted to work out what ministers wanted and try to deliver it, unlike in larger departments that 'transcend ministerial comings and goings'. But, he added, it can lead to 'a lack of sustained challenge'.

A former minister remembers querying the 'top-line' Treasury statement that the spiralling level of private debt from mortgages and credit cards was safe in the run-up to the financial crisis. They were told that such build-up of debt had only previously occurred in the 1950s alongside huge economic growth and therefore there was no cause to worry. One former civil servant, who had been extremely senior in the Treasury, used the strongest language: he talked of the 'arrogance' and 'hubris' of staff, who felt they were 'too powerful in the department to ask questions' or had the 'attitude that it wasn't their job to understand [the run-up to the crisis] was a bubble'.

Repeatedly, interviewees painted a picture of Treasury staff too arrogant to question their own economic assumptions. Loyalty and playing the civil service game seemed far more crucial skills. One former Treasury insider laughed at how pertinent Adrian Ham's description of the department still is today, although he was a special adviser to Denis Healey:

Careers [in the Treasury] are built upon an intimate knowledge of the labyrinthine secret Whitehall world, and the more senior an official becomes, the more he will have invested his time learning to move within the existing structure.[15]

Achieving progress in this way may be satisfying for those who are good at it, but it does not lead to internal forces for change.

These trends seemed of great concern to external stakeholders. When we spoke to business representatives we heard recurring complaints of inexperience and a lack of institutional memory: 'every time you have to re-educate the team'; 'a lot of them feel reasonably junior in terms of their experience'; 'you would never do this in the private sector'.

An academic who has built his reputation on studying the Treasury commented that there could be only one short-term solution to such a problem. He cited the example of Oftel, which had to employ consultants to bridge a similar institutional shortcoming artificially.

We conclude that the 'bright young thing' atmosphere of rotating generalists inside the Treasury limits institutional memory and can create a sense of institutional arrogance that impedes thoughtful long-term policy development. We recommend that the personnel policies within the department be reviewed to place a greater emphasis on policy experience, through either more specific career paths or greater use of senior secondments. Rather than employees leaving as they have families, the department should provide a distinct career structure for those who are good enough to remain.

Unfortunately, despite the changes brought in by the FER, the backgrounds of staff in the Treasury remain similar to each other. One former civil servant told us that there remains an old fashioned preponderance of white, Oxbridge graduates, who at senior levels are overwhelmingly male. As he emphasised, it is the only Whitehall department with an old Etonian as permanent secretary. Of his two second permanent secretaries, the current one was educated at Dulwich and Oxford and is the son of a knight; his predecessor was educated at Westminster and Oxford and is the son of a knight. However, another extremely senior former civil servant strongly opposed this view, citing a long list of Treasury managers who had come from grammar schools and non-Oxbridge universities. Whatever their backgrounds, nearly all our interviewees believe there is a distinct Treasury culture, which feels exclusive. It is worth asking why the Treasury continues to attract and promote people from such similar backgrounds.

Break it up?

One perennial debate about the Treasury is whether it would be better to split its finance and economics ministry roles into two separate departments. One expert we spoke to described the Treasury as 'trying to do an awful lot of roles and in danger of not doing any of them terribly well'; he advocated dividing the body in two.

Splitting the economics and finance ministries is a plausible alternative. In Germany, there has always been this divide and it has buttressed the two elements from possible contagion by the other over the financial crisis. One interviewee described the German economic ministry's reputation over the last 30 years as going from 'walking on water' to being 'destroyed' by the crash, but the financial arm has remained separate and is still respected.

Certainly, the idea of separation has been floated repeatedly to prime ministers in the last 20 years. One former Treasury official stated that, under Thatcher,

We used to toy with the idea that we ought to have a ministry of the economy and a ministry of the budget, which would have been responsible for getting the most out of the budget. Ministers decided not to go in that direction.[16]

Similarly, Jonathan Powell, Tony Blair's former chief of staff, also supported such a project. He proposed giving 'serious thought' to merging public spending with the Cabinet Office into an Office of Management; bringing the budget under a chief secretary and leaving the residue as a traditional finance ministry.[17]

Although the powers of the Treasury that are additional to the department's core as a finance ministry plus economics ministry have ebbed and flowed, proposals to split the two central functions have never come to fruition. Instead, prime ministers have on various occasions tried to undercut the power of the Treasury externally, through creating a 'growth' ministry. One former special adviser suggested such separation was in many ways welcome, describing the Treasury as a 'reluctant economics ministry', happy for others to prioritise growth, although this was not the case during the Brown era.

Such departments have tended to be viewed through the prism of the larger issues of personality, often inextricably linked to what is going on at the Treasury. One example of the former was the creation of the Department of Economic Affairs (DEA) in 1964 under George Brown. He was a powerful member of the cabinet and a possible leadership challenger at the time but, by 1969, the DEA was abolished, subsumed back under the control of the Treasury. Its power had waxed and waned with its political master. Similarly, the next attempt to have a 'growth' department, the Department of Trade and Industry, had a chequered history, which, as one interviewee stated 'is dependent on the political strength of the person in charge'. It suffers a slight identity crisis, with bits of it perennially being added or removed. It is the closest department to the private sector, yet business itself finds it frustrating that decisions on key areas of concern to them are taken elsewhere.

Crucially, the Treasury staff has knowledge of the national tax receipts, and the ability to change their levels, which other departments do not, meaning, as one former special adviser put it, 'they know how the economy is truly performing'. As a result, the Treasury has maintained a pre-eminence in controlling the economy, including growth, even when day-to-day projects are stationed elsewhere. And, as one interviewee highlighted to us, there would be tension over whether the new Treasury would 'seek to be the sole area of expertise or have a comparative advantage to other departments'.

One of our former civil service interviewees highlighted that in the medium to long term it was helpful for finance ministers to be aware of the economic consequences of decisions taken around capital and investment. A former cabinet secretary told us that 'the net gains of breaking it up are not so great as to make it worth pursuing'. A former special adviser stated, 'Although the Treasury is not perfect, there is the question of whether anyone else could do it better, which one would have to believe to be true to move it.' Particularly at a time when all levers of the economy are being used to promote growth, there appears no real and pressing reason to split the Treasury in two and we therefore recommend that the economics and finance function should remain under one roof.

Responsibility for financial services

Although we recommend that the economics and finance function should remain under one roof, we do not believe that all of the current functions of the Treasury need to remain as they are. We discuss the relationship between the Treasury and HMRC in chapter 3, concluding that a rethink is required, and the Treasury should cede some of its policy monopoly in the field of taxation. While a separate economics ministry may not be the answer, it is important that the role of the industry department – currently BIS – be strengthened vis à vis the Treasury.

In particular there is nothing about the Treasury's ultimate responsibility for maintaining financial stability that means it needs to be the so-called 'sponsor' in Whitehall for the financial services sector. Public opinion regarding the banks may be at a low ebb at the moment, but as an important – and usually successful – sector of the economy, financial services need a place in government to which they can turn to express views on anything they consider important for their future prosperity.

For most of recent history, unusually for such a large part of UK plc, the financial services sector has had nowhere obvious to go. When Ed Balls was Economic Secretary to the Treasury in the period from 2006/07 he was the first to style himself 'City minister', to the delight of the industry, and in recognition of the fact that they had hitherto lacked a formal way into government. Yet a former senior civil servant told us that, as the crisis began, 'it was a huge struggle to find anyone.... who knew anything about a balance sheet'. Another interviewee said:

This hit me a few years ago when the insurance industry had a big problem… I wanted to help get them in front of the Minister who had some involvement with the industry. There wasn't one.

But, increasingly, what the banks and insurance companies need is an effective voice in Brussels on the detail of regulation that affects their business interests and therefore the UK economy, not a prawn cocktail offensive by government in the City of London. This is something that can be done far more effectively by BIS, which is routinely championing, arguing for, and indeed disagreeing with, other sectors of the British economy. A former secondee in the Treasury said to us during the research for this project that 'the Treasury was only interested in sponsoring the banks in the good years; it doesn't want to be bothered with it now'.

Furthermore, there was frustration at the apparent reneging on a promise made by the current Coalition Government when in opposition to have a Treasury minister in Brussels fighting for the interests of the City of London: 'Where is the Brussels minister? Not in Brussels', said a senior investment banker to us during the course of the research.

The main argument against transferring day-to-day responsibility for financial services policy to BIS seems to be the low reputation of that department. We heard the following views:

Don't agree with giving it to BIS. They are hopeless.
Former senior adviser in Number 10

The problem with BIS is that they are no good.
Former senior Treasury official

We have a pretty low view of BIS and I doubt there are many people who feel that the department as it stands could cope with it.
Senior civil servant

We consider it a problem that the department for business is viewed negatively and perhaps counter-intuitively; we therefore recommend that day-to-day sponsorship of the financial services sector should transfer back to BIS, with the staff required transferring from the Treasury, in order to boost the status of that department as well as give a clearer focus to the sponsorship role for the financial services sector.

The question then remains as to where responsibility for macro-prudential regulation and financial stability should lie. Those opposed to splitting responsibility for financial services policy from the Treasury argue that, because the sums of money required are so high when there is a bail-out, it has to be the chancellor calling the shots and one former senior civil servant feared the spectre of 'quadrilateral negotiations'. Conversely, it can be argued that wherever responsibility for financial services resides in government, the buck would ultimately stop with the chancellor in matters that involve spending. After all, the Treasury was intimately involved in the nationalisation of British Energy and Railtrack despite primary responsibility for these sectors of the economy lying elsewhere.

In fact, primary responsibility for macro-prudential regulation outside government is passing to the Bank of England. We recommend that the Treasury should retain a core capability to advise the chancellor in the event of a financial crisis but that routine responsibility for the promotion and sponsorship of the banking and wider financial services sector, including primary responsibility for exercising a leadership role on financial services reform in Europe, should pass to BIS.[18] This would suggest that the City minister should have responsibility for both departments, and so be able to work across a number of European Council committees as appropriate.

A former Treasury permanent secretary told us that he was 'never keen to bring financial services into the Treasury' in the first place because of the limited desire of the department to perform a sponsorship role for the sector, but he became convinced because of the need to represent the interests of UK financial services at the EU Ecofin Council. Our proposed recommendation that a minster should straddle both departments would seem to resolve this apparent tension.

The Office for Budget Responsibility

For George Osborne, the creation of the Office for Budget Responsibility (OBR) is the physical symbol of his will to bring down the deficit. It is designed to create independent fiscal forecasts, and an objective check on the government's self imposed target of eliminating the structural government deficit. The government legislated in 1975 that it had to produce at least two forecasts a year; responsibility for fulfilling this requirement now passes to the OBR.

We included questions on the OBR as part of our research with interviewees. We found unanimous support for its creation, across party divides, tempered only slightly with some concerns about whether the Treasury would lose important expertise as a result.

One former adviser with 20 years' experience working on economic and industrial policy in Whitehall commented for example that 'no decent macroeconomic people will want to be at the Treasury' and worried that there will be 'little decent external macro forecasting to test the OBR'. This could prove a negative impact on policy.

This concern is supported by our own desk research: discussions about whether the Treasury should be its own forecaster were occurring nearly two decades ago. There was awareness then that large amounts of money and time were being spent. Yet in the Fundamental Expenditure Review of 1994 it was decided not to outsource this capability. The report decided that 'the quality of the Treasury's macroeconomic policy advice would decline' as forecasting concentrates the mind.[19] As one official stated a few years later, 'You are more likely to think coherently about the economy if you are trying to forecast it.'[20]

Over time the robustness of the OBR's forecasts will come to be tested more by events than by external challenges at the time, such that we do not consider these concerns to override the benefits obtained by having independent fiscal and economic forecasts available.

Where we found far more disagreement was over the question of whether the previous economic forecasts had indeed been subject to political influence. One former senior official stated:

There was a process for the public finance forecasts that was repeated year on year. A first set of forecasts were put together. They went to the Chancellor, who queried the assumptions. They became gradually more optimistic as assumptions were adjusted.

This statement was supported by a former special adviser, who described the forecasts as a 'twice yearly fight' that 'always over-forecast'. Another former civil servant also reported that complex tax legislation to reduce avoidance only made it into the budget if officials claimed the measure would raise lots of money – otherwise the chancellor was not interested. As a result, there were consistently large entries in the revenue column attributed to anti-avoidance measures, with little sense of how much money would actually be raised.

We also had views expressed to the contrary. One former adviser at the heart of the process stated that he thought it was fairer to say that economic forecasting is not a science and so with ministers making the final decisions there will always be accusations that they are not totally credible, which is why having an OBR is a positive development. He conceded, however, that ministers possibly sometimes attempted to 'push officials beyond where they wanted to go' on growth rates although there was no evidence of any 'systematic bias upwards'. Indeed, between 1995 and 2001 the Treasury's forecasts were in fact systematically too pessimistic.

The OBR has not yet established itself as fully independent. There is a tension between the need to use protected internal data to build a fiscal forecast yet be immune to any kind of government interference. Whereas the Bank can set interest rates independently from the fiscal policies of the Treasury, the OBR will have, as the Treasury Committee concluded, 'a more complex relationship with government'.[21] Indeed, Sir Alan Budd told the Committee that from his experience with the interim OBR, the 'involvement of officials working in the Treasury, HMRC and DWP [Department for Work and Pensions] is absolutely inevitable' and highlighted the potential tensions this could have with its independence.[22]

Although it is intended to be independent, the OBR will also have to interact with the Treasury's policies. Sir Alan again:

The Chancellor when he is considering policies must be considering their effect on the economy and it is the OBR who tells him, as best they can, what the effect on the economy of those policies will be, so to that extent the OBR does become a very important part of the budget-making process.[23]

The Labour MP Chuka Umunna was moved to quote Stephanie Flanders in a Treasury Committee on the subject, 'So to put it in a way that Bill Clinton would recognise, you need the OBR to smoke the same stuff as the Treasury but not inhale.' He was concerned that 'the closer the OBR is to the corridors of power the more it is going to know but the more it knows the more its independence is going to be put under strain'.[24]

The Treasury Committee and the chancellor have worked to provide an infrastructure to keep the OBR as independent as possible. The government gave the Select Committee a veto over the appointment of the OBR's chair. The office itself is located outside the Treasury building, to provide a physical separation. Further, the OBR will be listed as a separate entry in the Treasury's estimate to show budget expenditure. The OBR will not be commenting on individual policies or particularly strengthen the power of parliamentarians to hold the Treasury to account. This creates a gap in the amount of information available to Parliament, which we return to in the next chapter.

One of the most potentially problematic requirements Osborne has requested of the OBR is to monitor the government's progress towards eliminating the so-called 'structural deficit'. Although this has become a much-used phrase in public discourse in the context of addressing the fiscal challenges facing the UK, it is not an objective measure. The structural deficit is the amount that the government would still be over-spending every year, on top of tax intake, even if the effects of the cyclical position of the economy were discounted. But this depends on counterfactuals, what would have occurred in the economy and where it will go from here. These are subjective and politically loaded questions. As Chris Giles has written, 'uncertainties are so large any forecast of the structural deficit falls into the 'made up' category'.[25] In publishing its figures, the OBR will highlight the range of possible forecasts. A further potential pitfall for the OBR is that the Chancellor has only asked them to assess whether the Treasury has at least a 50 per cent chance of hitting its target.[26] The government can continue its current policies as long as it has an equal likelihood of achieving, or not achieving, its goals. This seems perhaps an imprecise target on the part of the government.

The OBR must also contend with the fact that the Treasury's forecasting team did not see the financial crisis coming. Nor were they alone in this: the IMF, Bank of England, Organisation for Economic and Co-operative Development (OECD), IFS and indeed the vast majority of external forecasters failed to predict the economic crash. The likelihood that the OBR, had it been in place, would have forecast such an event is low. They would be well advised to build their reputation on more than their forecasting ability or it could be destroyed at the next unanticipated event.

One thing the OBR should do, however, is to start a debate on the usefulness of having a fiscal target that is linked to the concept of the structural deficit. It should highlight the relationship between the very specific nature of the government's annual departmental spending targets (or, in the current environment, the cuts) and the more nebulous and retrospective concept of the structural deficit. What would need to happen, for example, to the level of the cuts required if the estimate of the structural deficit were to alter by a few percentage points? We recommend that the OBR should explore the policy implications of having a target involving a concept as nebulous as the structural deficit.

In summary, the establishing of the OBR is a clear step forward. Taking forecasting out of the political domain, and having an independent body determining whether the Treasury's fiscal rules are likely to be met, must increase the credibility of policy. It is an important and sensible response to a lack of separation between politics and apparently technocratic, economic and statistical functions within the Treasury. It will be more effective the more independent it is seen to be. This impression will be helped rather than hindered if it feels able to explore some of the questions behind the government's self-imposed target of eliminating the structural deficit within this parliament.

2 Accountability

One area in pressing need of reform is Parliament's relationship with the Treasury. There is currently a significant democratic deficit regarding Parliament's ability to hold the Treasury to account. Given that there are also few checks and balances on Treasury within Whitehall, this is unusually important. The Treasury itself is arguably at its most effective in holding other departments to account for their spending and policy proposals. Not enough people are doing the same to the Treasury.

Finance bills

The tradition that the House of Lords does not review finance bills means that the Treasury's work has literally half the scrutiny of other departments; this dates back to the 1910 'People's Budget' and popular objection to peers overturning measures suggested by the elected House of Commons. Now this precedent means that the knowledge of appointed members, many of whom have previous careers in related areas, is not being used. As one interviewee who is himself a peer observed, 'there is all this expertise here and it is not being used'. Having been called before the Treasury Select Committee, based in the Commons, and the Economic Committee in the Lords, he saw the latter as the infinitely more 'scary' experience.

The lack of accountability is exacerbated by the limited institutional knowledge in Parliament surrounding Treasury issues. One contribution to the Mirrlees review records that 'it has happened that the Minister picks the wrong answer off the list, but the MP doesn't know and is satisfied with the answer'.[27] Such mutual incomprehension of the issues being discussed is one of the reasons the Commons rarely makes any amendments to finance bills. One former civil servant described the finance bill process succinctly: 'It's a mess.' A minister who had been involved in the process was equally frustrated at having to spend hours mugging up on minute technicalities that were only being debated because government officials had made drafting errors or failed properly to consult, and so were amending their own legislation in areas that only related to a small number of companies. This leads to over-technical discussions in committee that further shroud the whole process in mystery, putting off backbenchers from getting involved.

The relatively technical nature of the subject means there is little scope for amateur informed interest and so it is harder for tearoom chat to become widespread concern among MPs. There is also a major lack of research support to enable MPs to judge the policies presented to them; an MP and their researcher relying on a Commons briefing paper and a few industry notes are unlikely to put together a comprehensive critique of the government's economic policy.

The most effective body scrutinising government currently is the Public Accounts Committee. This is because it has the largest staff and greatest access to public accounts information, which has, in the words of a former civil servant, 'the weight of the National Audit Office behind it – a much more forensic experience'. Its reports have altered government policy. But this committee only ever engages *post facto* and therefore cannot help prevent poorly constructed finance bills from passing. This in turn encourages a culture of complacency among Treasury and HMRC staff, who face no real sanction if they have to put down extensive and bewildering amendments to their own legislation as a result of their sloppiness or lack of expertise.

The Treasury therefore has the least scrutiny of any government department, despite being one of the most central. Particularly when the Treasury is expanded into a policy centre, as it has been in the recent past, it is unclear who is really holding it to account. This needs to change.

Constitutionally, there are strong arguments to allow the House of Lords to become involved in finance bills again. A tax expert said to us that 'it was staggering that the crucial matter of taxation only gets half the scrutiny of "normal" legislation'. The

Lords is now a predominantly appointed House as opposed to being hereditary. In future it may become more democratic. Opening up the Treasury's recommendations to the second House would allow more time and more expertise to review the issues raised.

We recommend altering this outdated ban. The downside is that it would take longer for a finance bill to get onto the statute books. But in the words of one of our interviewees, who has extensive experience outside government with working on the passage of finance bills, this may not be such a disadvantage:

It helps the government that the finance bill is guaranteed to be on the statute books within four months or so… but it also perhaps means the Treasury can be lazy with policy development – they are guaranteed fast legislative change if they need it.

Tax scrutiny

In particular, taxation is regarded as a highly technical area and has no real consideration within Parliament. As Sir Alan Budd, until recently the interim head of the Office for Budget Responsibility, said in the 2003 Tax Law Review Committee,

The truth of the matter is that the House of Commons has neither the expertise nor, apparently, the inclination to undertake any systematic or effective examination of whatever tax rules the Government of the day places before it for its approval.[28]

Such a failure to judge systematically the taxation system is an extreme example of Parliament's current inability to hold the chancellor responsible for the decisions he makes or to judge the efficacy of measures that are proposed.

Against such a situation, the Treasury Select Committee is designed to hold ministers to account. Currently, this body, which has a minimum of 11 members, is given little additional research support beyond the usual hard-working handful of clerks. And from this uninspiring base, they are supposed to hold a complex and wide-ranging department responsible. While there have been many highly regarded brains on the Committee, this is insufficient.

Lord Howe produced a report in 2008 called 'Making taxes simpler' on behalf of the Conservative Party.[29] One of its major recommendations, the creation of the Office of Tax Simplification, was in the Conservative manifesto and became reality; it will be studied in the next chapter. Its other proposal, for a separate tax select committee to be set up, was quietly ignored. We recommend that there be a separate taxation select committee that operates in parallel to the Treasury Select Committee, to hold the government to account and to provide a place where backbench MPs can increase their knowledge of the taxation system. This recommendation was supported by the vast majority of those whom we interviewed.

We also recommend in the next chapter that the government routinely set out its tax policy in general terms. A helpful addition, for example, would be a white paper on the use of taxation policy to achieve public goals. This could set out the general principles used to guide the setting of tax rates and the aims of so doing. This new taxation select committee would then be the place where ministers are questioned over their ability to keep to their own policies, increasing the political price of making ad hoc decisions around tax rates in the run-up to a budget.

A parliamentary budget office

One recurrent idea for Treasury reform is to create a British equivalent to the Congressional Budget Office, perhaps called a parliamentary budget office; this was a proposal that received cautious support during the course of our research. In the USA, the CBO is independently staffed from the Treasury and provided with ample resources. Their work informs congressional members to help them debate and amend financial measures. Canada, too, has a Parliamentary Budget Office, responsible to the legislature.

A UK parliamentary budget office would be far stronger than the House of Commons Library; indeed the library itself was strongly criticised for its lack of capacity on Treasury measures by some of our interviewees, 'It publishes gossip – it's pathetic'; 'I'm embarrassed by their levels of understanding'. Without sufficient information, parliamentarians will always be at a disadvantage.

A budget office answerable to Parliament would work to strengthen the general information provided to MPs and also create a stronger Treasury Select Committee. As one academic half-jokingly pointed out to us, Beatrice and Sidney Webb had advocated having half of Whitehall working for Parliament and the other half working for the civil service; certainly, the quality of advice is far too inequitably distributed at present.

The introduction of a UK parliamentary budget office would also satisfy those who felt the final design of the Office for Budget Responsibility missed an opportunity to improve scrutiny of the policy and parliamentary process. Alt, Preston and Sibieta, in particular, in their contribution to the Mirrlees review emphasised the need to enhance Parliament's capacity for oversight.[30]

At the time of its creation, experts debated whether the OBR could cost opposition policies in the run-up to an election.[31] Over the 2010 election, the IFS captured the electoral debate about the parties' spending plans with its independent estimates. In the Netherlands, the Fiscal Council, called the CPB, does cost opposition policies.

In order that the OBR keeps above the political fray we recommend that instead it is the new parliamentary budget office that has the ability not only to cost opposition policies, but also to publish its analysis of the effect of the budget and pre-budget reports on the macro economy, and also to examine the economic impact of contentious policies of the day, as requested by MPs. In so doing, the new office would add greatly to the quality of economic debate in Britain and empower MPs to hold the Treasury to account more effectively.

3 Tax

One of the Treasury's greatest powers lies in taxation. The chancellor has to work with other cabinet ministers when dealing with spending matters; tax, by contrast, remains solely under his control. It is a potent tool through which chancellors can demonstrate their vision of the economy. For some, tax is a means of raising revenue; for others, it is a means to effect change in society.

For Jean-Baptiste Colbert, the French Minister of Finance under Louis XIV, 'the art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing'.[32] But there is a lot of positioning involved as well. Indeed, politics cannot now be separated from tax policy: as one commentator has written, 'they[tax policies] are the stuff of party battle'.[33]

Philip Gould, part of the Labour strategy team in the run-up to 1997 and beyond, wrote:

Tax was central to our strategy of reassurance. If the election campaign had one crucial battle, one defining fight, it was over tax. We lost the 1992 election and won the 1997 one in large part because of tax. Tony Blair and Gordon Brown both believed the shadow Budget in 1992 had been a mistake: it revealed our hand and raised taxes for middle-income earners… Blair and Brown had a gut feeling that hard-working families paid enough tax; why should they pay any more?[34]

New Labour deliberately aimed to counter the traditional image of the Labour party's tax policy and cut direct taxes for the middle classes. The taxation policy was therefore seen through the political as well as the economic agenda.

One of the reasons tax in Britain is so important is because it is so centralised. As Chris Wales wrote, 'It is difficult to find a democratic country where tax policy-making power is so concentrated.'[35] The centralisation of the system is a particular problem because of the lack of institutional accountability of the Treasury on taxation policy and the lack of accountability of chancellors themselves in matters of taxation. By tradition, chancellors only tell the cabinet the content of their taxation proposals on the same day they announce them to Parliament, even if any changes have huge ramifications for the reputation of their department. As one of our interviewees said, 'with tax, the argument for greater accountability applies in spades'. And, as we discussed in chapter 1, when changes are announced to Parliament, they do not always get a substantive hearing. The concept of checks and balances in tax policy is nonexistent. This is a serious problem for effective policy making. Moreover, in recent years, the ongoing complexity and volume of tax legislation has prompted complaints. One senior former tax adviser told us, 'Tax in particular needs an external perspective and internal examination of the system.'

This is something the Coalition Government seems to understand. In its 2010 document, *Tax Policy Making: A new approach*, the Government lays out a vision of a tax system distinguished by 'predictability, stability and simplicity'.[36] The paper contains proposals for the government to provide a minimum of four weeks' consultation for secondary legislation and to publish a finance bill in draft three months before publication. Generally, this document was welcomed by our interviewees, although they all provided the caveat, 'Let's wait till it's implemented.' One former MP found it 'disappointing that it stops when the bill gets to Parliament' while an external stakeholder dismissed it as 'motherhood and apple pie'.

In this chapter we focus our attention on three areas: the troubled relationship between HMRC and the Treasury; issues relating to the quality of consultation on tax issues, and the way in which the Treasury and the chancellor are held to account; and the new innovation of the OTS and whether it can be made more effective.

The relationship between the Treasury and HMRC

The key change in tax policy making came not with the 1994 Fundamental Expenditure Review but a decade later, with the 2004 O'Donnell review.[37] This has left a legacy of problems concerning the relative powers of the Treasury and HMRC, which have the potential to inhibit the making of good tax policy.

The O'Donnell review implemented two crucial changes relating to tax policy. The first was to create Her Majesty's Revenue & Customs (HMRC) out of two previously existing entities, Customs and Excise and the Inland Revenue. This amalgamation had been talked about for over 140 years and represented a major reform of the system. Consequently, it was the formation of HMRC that attracted most headlines at the time.

But the report had a second purpose: to redesign the relationship between the Treasury and the new HMRC in how tax policy was made. The Treasury gained the role of forming tax policy while HMRC was intended to bring expertise to the functioning of the current system. This marked a major shift in the responsibilities of the two bodies. Previously, as one commentator has described, 'the Treasury was more of a clearing house for tax policy than a policy initiator'.[38] For O'Donnell it was a scandal that, before the review, only 1.5 per cent of Treasury resources were allocated to 'efficient tax policies' and that of 62 standing teams in the Treasury in 1994, only two dealt with tax.[39]

The relationship between the Treasury and HMRC's predecessors had always been ill-defined. Lord Bridges, the Permanent Secretary, described the relationship in 1963, in a passage whose complexity reflects the problems faced:

The Inland Revenue and HM Customs and Excise are responsible to the Chancellor, and are subject to a measure of Treasury direction. This however means Ministerial direction. The officials of Revenue and Customs do not take orders from Treasury officials. But in framing taxation policy the Treasury shares with the Revenue Departments responsibility for advising the Chancellor. The Treasury is also usually concerned in any matter where taxation principles or policy have a bearing on or are affected by some aspect of Government policy.[40]

Clearly the O'Donnell review represented an improvement on this situation, but this improvement is merely relative. We took evidence from a significant number of people outside government who interact regularly with the civil service on matters of tax policy. We heard that the current relationship between the Treasury and HMRC was 'very dysfunctional', had 'almost gone as wrong as it could have gone' and was 'a complete car crash'. One former civil servant acknowledged the problems and told us that the balance of power has 'slipped over time – it's moved to the Treasury's advantage'. Others related their experience that the default defensive position of HMRC to respond to any policy initiative from the Treasury was the unproven statement that 'the cost of amending their computer system was prohibitive'.

Such concerns have recurred repeatedly since the redefinition of the relationship between the two bodies. Comments made in 2007 by the Institute of Chartered Accountants are representative of many: they wrote:

> *We are not convinced that this distinction is working in practice. There appears to be a lack of clarity about which department is responsible for policy formulation and what involvement HMRC actually has in the development of tax policy. We suspect these concerns stem from the fact that HM Treasury cannot formulate tax policy in a vacuum and that it needs the considerable practical input and expertise of HMRC to design tax policies that work on the ground.*[41]

Having an effective tax-policy-making team is critical to the quality of the work produced. As a former adviser stressed to us, the civil service has the most power over the small tax changes, 'amounts not large enough to require the chancellor to sign them off', instead crossing the desk of a junior minister as part of a large bundle of technical and administrative changes. As a result, the lower echelons of the civil service can exercise relatively large amounts of power with their cumulative decisions on smaller tax measures, including changing the detail of legislation. A dysfunctional relationship between HMRC and the Treasury is a problem not only for the people in the institutions concerned but for everyone who is affected by their policies.

One fundamental problem with the system is that the framework document O'Donnell requested in his review to clarify the relationship between the two departments has never been written. Currently, the relationship between the two bodies is 'dependent on the maturity and sense of the people, having a good collaborative relationship', in the words of a senior civil servant, a view that was backed up by someone who had been a junior Treasury employee in a tax team. We recommend that the framework document should be written now to complete O'Donnell's work. Given that there will be changes in the reach of HMRC as a result of the present government's plans to incorporate the tax credit and benefit system into one universal credit system spanning the traditional responsibilities of Treasury and DWP, this would seem a good time to clarify the relative responsibilities of different departments. As one tax policy expert stated to us, 'I don't mind where the divide is, as long as it's clear.'

At the moment, pursuing a career only in tax policy is not valued within the Treasury hierarchy. Officials pass through the tax teams rather than making tax policy a career choice. Outside organisations dealing with the Treasury highlighted the speed of turnover, which necessitated a re-explanation of issues at every meeting they attended. High turnover results in a lack of experience in the tax section and little institutional memory. The intention of the O'Donnell review was to 'expand career opportunities for staff, developing strong career paths to provide experience across the new department, with frequent interchange between the new department and the Treasury'.[42] This has not proved effective in practice.

Former civil servants affirmed that tax is seen as a 'dead end' within the Treasury, which people try to avoid, or move out of quickly. When pressed, one ascribed this to the fact that few senior staff had backgrounds in tax, as their careers predated the O'Donnell review, which in turn made them less likely to promote young tax experts. One former civil servant told us, 'they have been trying to make up for a lack of expertise in the Treasury by bringing people in from the four big accountancy firms on secondment', adding, 'their expertise has been key on tax design'. However, an external stakeholder criticised the fact that 'someone who was only there for 18 months was in charge of the North Sea oil and gas sector'. One of our interviewees believed that the promotion of people with tax experience in the department could help alter this situation.

A career in tax policy, though, has become equally unattractive for employees at HMRC because of their lack of authority. Just as stakeholders noted the turnover in the Treasury, they also related that representatives from HMRC were often made to sit quietly in meetings, even when the Treasury representative was decades younger than them. An interviewee stated, 'you can often feel the Revenue people at the meeting biting their tongue as they are not allowed to say anything' and that HMRC staff 'feel disenfranchised; they know it's not their job to make policy'. As a result, one stakeholder feared that 'HMRC could give the advice of "tax collector blocking-men" to spite the Treasury.'

Several interviewees stressed that the working relationships between individuals are key to the functioning of the current system. But with the scales so weighted in the Treasury staff's favour, the relationship clearly does not start from a position of equality. Stakeholders also talked about the potential role for HMRC sector leaders in forming policy; they have the greatest tax expertise in the institution but are rarely used.

For some of those we spoke to, the youth and rapid promotion of Treasury personnel accentuates such tensions between the institutions involved in tax policy making. It is also the members of the Treasury team, not those from HMRC, who present information to the chancellor: 'The HMRC people are not in the room when the big decisions are being made. They weren't talking to the ministers.'

It is useful to examine the relationship between the US Treasury and the Inland Revenue Service (IRS), the model that inspired the O'Donnell reforms but now looks markedly different from the equivalent departments in Britain. A senior private sector tax specialist, who has worked in the US and the UK, described it thus:

The US office of tax policy takes the lead over the IRS on all matters of tax policy. The real difference is that they are all private sector experts brought in as full time civil servants for a few years. Thus, they all have the expertise (and authority from the Assistant Secretary for Taxation) to set the policy parameters and then not be out-argued by the product specialists at the IRS. It was the model for O'Donnell but then the proper resources were never put in the UK Treasury.

Overall, there seems a need for a clear career in tax policy, which might involve staff taking stints in both HMRC and the Treasury, not to mention other departments and indeed industry. Both organisations need to work to design such a career structure and ensure that enough staff engage in it and develop the necessary expertise. One possibility, which we recommend, could involve creating a distinct path within the civil service through which tax specialists could progress, similar in status to the internal career structures for economists and statisticians, and with the potential to feed into high middle management positions in the senior civil service. It is certainly apparent that tax policy specialists should be valued within the system and gain experience not just in HMRC and the Treasury, but also in the private sector and other departments.

It would also be helpful in relations between the two departments to give more status to the Treasury minister who has responsibility for HMRC. At present the responsibility is held by a minister of state whose main task is to lead the finance bill through Parliament; many of the key decisions are made elsewhere. Our recommendation is that the chief secretary takes responsibility for taxation, including HMRC, in addition to their existing responsibilities for spending, which would send a strong signal that tax policy was embedded at the heart of the Treasury. One former adviser said that it would need more political power to make HMRC into 'something worth listening to, not something annoying to be batted away'. This recommendation is an attempt to solve that problem.

However, many of the people we spoke to did not feel that increasing the power of HMRC would be an effective way to improve tax policy making; a former special adviser opposed the idea, saying, 'There's not all this expertise just sitting there.' As a former senior civil servant recalled, before the O'Donnell review, advice from the revenue 'was thorough, there was a high premium on accuracy, it reflected a lot of knowledge' but it was also 'stunningly unimaginative'. Although there is strong expertise in the body, this relates to how the tax system currently operates rather than necessarily providing good ideas about how to improve it.

Our view, however, is that we should not return to the pre-O'Donnell situation in the short term: in the words of an external stakeholder, 'the egg has fallen off the wall on that one'. Instead, there is a need for a slight tilt so that expertise is not lost through senior HMRC officials feeling disenfranchised by being forced to work with more junior colleagues. Ministers need the input not only of adaptable policy brains but also specialist tax expertise; the management challenge for the leaders of both organisations is to get those two different types of people to work together effectively. A greater emphasis also needs to be placed on consistent relationship management with the industry, enabling private sector companies to give their expertise in a way that doesn't feel as if they are continually having to re-invent the wheel.

As one former civil servant said regarding the division between HMRC and the Treasury, 'Wherever you put the boundary it's going to have a tension across it.' There is no perfect answer to the relationship between the institutions. Our recommendations are threefold. First, codify the remit of the two bodies relative to each other. Second, find institutional ways to increase the status of senior HMRC officials within the Treasury, such as giving responsibility for HMRC and taxation policy to the chief secretary, as a stepping stone to our third recommendation, which is to create a distinct personnel stream within Whitehall for tax experts, which would encourage a long-term career path for people able to understand the technicalities and apply it to practical policy making.

Consultation and accountability

The quality of tax policy also suffers from a lack of definition; one interviewee told us 'there is a lack of a framework for long-term planning and for structuring'. Another, former civil servant suggested the government 'needs to articulate a coherent approach to their tax strategy'. Unlike ministers in charge of any other government department, the chancellor does not feel compelled to outline his vision for taxation. As one stakeholder stated about the Treasury, 'everything is backwards: solution, analysis of problem then policy statement'. Without a vision and stated direction, policy will be less predictable and has less chance of hanging together. Consultations, while now numerous, are less coherent and harder to respond to if the overall direction of policy is not known. There is also less evaluation of tax policy than in most areas of government policy – a remarkable situation, which should be remedied.

Consultation with external business people has developed significantly in the Treasury over the past few decades. From having been a major area of complaint, there was widespread agreement among our interviewees that the department had improved. A former tax specialist within government who is now undertaking a comparative study of OECD tax policy systems told us that the UK's relationship with the business sector over tax policy is 'ahead of France and Germany but not as strong as the Scandinavian countries'. However, stakeholders also highlighted that the best consultation occurs when the Treasury has a clear policy objective. The consultation that led to A-day changes for pensions were cited as a positive example of best practice leading to useful improvements. By contrast, the consultation over the issue of taxing controlled foreign companies appeared to have no clear policy objective and so drifted in an unfocused way.

Nonetheless, the Treasury remains a guarded department, keen to maintain opacity about its tax policy making. There are traditional areas that are ring-fenced as not for consultation, including tax rates and anti-avoidance measures. Such areas of non-discussion have been applied to issues such as the change in capital gains tax in 2007. Former civil servants acknowledged that the Treasury could be far more transparent in its work without affecting the markets or undermining consumer confidence.

Further clarity over policy aims and the intended effect of measures would aid consultation, ultimately making for better regulations. It would also improve stability in this policy area, lowering the perceived level of political risk in the eyes of business, with all its associated deadweight costs. The Confederation of British Industry (CBI) has long been lobbying for a 'no surprises' legislative and administrative process.[44] The CBI's members objected to last-minute decisions made on spending reviews, for revenue raising purposes, which had a major impact on the relevant sector. In the North Sea oil and gas sector there was a last minute change in the tax code in 2002/03, which went against the policy direction indicated to industry stakeholders; one businessman stated that this 'overnight' change meant the government's credibility in the sector 'took seven years to recover'.

Currently tax policy can be made at the last minute to 'fill a hole' in the finances, which creates randomness if that aim is not explicitly stated. Alistair Darling knew that the one-off bank levy would not alter behaviour but would raise revenue – perhaps the perfect tax according to the textbooks – yet it was portrayed as an attempt to reduce bankers' bonuses. Better to be clear about the purpose of the tax. As one stakeholder said, 'raising £2.5 billion is not a policy debate'. The same interviewee recounted a story that 28 banking representatives were brought in to consult on the levy and joked it would have been quicker and more effective to pass a hat around.

Alongside this lack of definition of what the aim of taxes is, there is rarely follow-up measurement of their effect. There is scope for more use of dynamic models of behavioural change, rather than, for example, simply presuming that lowering corporation tax would just lead to lower revenues, without any effect on UK competitiveness and investment. Measures to combat tax avoidance were particularly cited by interviewees as an example where consultation could subsequently be used to improve the alignment of policy objective and end result. As one stakeholder said, 'at the moment it [anti-avoidance] works like a drive-by shooting. You might hit your objective but you also hit a lot of other people.' At present, policies are frequently changed without understanding the impact the policy has initially had in practice.

The Treasury needs to undertake a far more systematic declaration of policy and follow-up study. Where there is a need for secrecy, to prevent market distortion, the Treasury should commit to consulting on the effectiveness of the measure subsequent to implementation. The Coalition Government began with a laudable commitment to openness, epitomised by the establishment of the OBR and the publication of all government expenditure information via the so-called Combined Online Information System (COINS) database. It should continue this by perhaps using the opportunity of the publication in 2011 of the full conclusions of the independent Mirrlees review into tax systems to describe in detail the aims and objectives of each area of taxation. These could be revenue raising, redistribution, nudging to achieve other aims for example health or the environment, or hypothecated payments for certain services, such as transport fines and local taxes and precepts.

While retaining the absolute right to alter any tax base or rate, the government should in advance describe the circumstances in which this would be done and for what purpose. In some areas where there are complex dynamic effects, the government should discuss how it arrives at a decision on what the best rate is.

In corporation and other business taxes, for example, to what extent do international comparisons and competitiveness issues matter? Is there a limit to the level of income taxes and NI taxes? What are the underlying factors that, if they change, could prompt a change to a tax rate or tax base, such as consumer demand, competition or technology? Are there areas of activity that are no-go for taxation, for economic or ethical reasons, and why? Is there an implied limit to the size of the state as a proportion of GDP, once cyclical effects have been taken out? Should state spending increase when the economy falters? If so, should the state pay for it in advance or after the event, and what are the implications for tax policy as opposed to levels of spending?

All these are perfectly legitimate and extremely pertinent questions, which a good government should have a view on. The government loses no power by discussing them openly; rather it gains a crucial opportunity to raise the quality of decision making by engaging a wider audience in the debate at an earlier stage, as well as gaining credibility through a commitment to openness with the industry. It would good for business because it would give business people more precision on the nature of the risk that tax rates would change, enabling them to make more efficient decisions and deploy resources better.

As alluded to in chapter 2, we recommend that such a document is produced, consulted on and regularly revised as a matter of urgency. In addition, it should become routine that the chancellor appear in front of the new Taxation Select Committee within, say, a fortnight of the publication of the budget so he can be scrutinised on the compliance of any proposed tax changes with this tax policy document. We feel that only this measure would act as a sufficient *ex ante* deterrent to ministers to adopt last minute, apparently arbitrary, changes, which are destabilising to both the industry and the economy.

Tax simplification

Over the last two decades, the tax system has expanded greatly in the scope and volume of its legislation. This has provided a key focus of discontent for businesses and the Conservatives in opposition. George Osborne has described the current UK tax system as a 'spaghetti bowl' with 'one of the most complex and opaque tax codes in the world'.[45]

There have been consistent calls for this system to be simplified. Suggestions have included the idea of setting up a tax policy committee, similar to the Bank of England Monetary Policy Committee, and calls for specific targets for the reduction of legislation. Until recently, the only step made towards this goal was the Tax Law Rewrite Project. As the name suggests, this was designed to provide a service that rewrote law in a simplified manner. However, it was not allowed to affect the substance of the law that it was rewriting. The benefits of the project became clear through the results: the project made the law far clearer with its rewrite of the Capital Allowances Act of 2001, which attracted a great deal of praise. But the project did not help greater scrutiny of legislation in the first place.

The Office of Tax Simplification (OTS) is designed to provide the government with independent advice on simplifying the UK tax system and covers all the UK taxes and duties administered by HMRC. However, it has no democratic mandate to decide policy and could potentially be a further layer of complexity between HMRC and Treasury. The remit of the OTS, as now defined, is to

review a list of all reliefs, allowances and exemptions within the taxes and duties administered by HMRC and identify those reliefs that should be repealed or simplified to support the Government's objective for a simpler tax system.[46]

Currently, the OTS is looking into two main areas: the Small Business Tax Simplification Review and tax reliefs in general. There has been some scepticism about whether the powers of the OTS are sufficient for them to achieve the goals stated in their remit. At the moment, the OTS can only comment on the stock of legislation, on the grounds that the Tax Policy Making Framework will cover new legislation. But the IFS has argued that the OTS needs to have more powers in relation to the Treasury and HMRC if it is to be effective: 'If the OTS is to make a real difference and simplify the tax code, it will need to make fundamental changes to the tax system and will be directly involved with the direction of tax policy.'[47] An integral part of tax simplification is engaging with policy from an early stage in the process. If this is not part of the role of the OTS, it will do no more than tinker with the detail of plans after the event.

In summary, the OTS provides a useful countervailing force to the complexity of tax legislation, and at the very least will ensure that someone whose job it is to simplify taxes will be in the room. It cannot be an effective solution to the problem of over-complication without the Treasury allowing it a far more fundamental role. Our vision is of an organisation that can propose changes to tax bases and rates but only where doing so achieves benefits in simplification that outweigh any marginal costs and distortions from using less complex policy tools. Staff should be continually scouring all areas of policy to find ways to achieve roughly the same goals in a more straightforward way, without significantly changing the overall tax yield. It is then for government to decide whether or not to accept their recommendations.

It is also worth noting in passing that there is an interesting disjunction between the written contributions to the Treasury from businesses concerning the need to simplify taxes and the priorities they raise in conversation by stakeholders. One former special adviser expressed scepticism about whether tax simplification is a real concern of business; he believed their support for it as a concept was because business people hoped its remit could be expanded into demand for lower taxes. Certainly, one business person we spoke to acknowledged that complexity in the tax code was more of a problem for ordinary people than for big companies, who could afford to pay lawyers to interpret the legislation. Many individuals do not have to get involved in the detail because tax payments on their income are covered by the Pay As You Earn (PAYE) system. Tax simplification may have been a high profile issue over the last few years but this does not necessarily signal that it is the greatest problem with the system.

Ultimately, regardless of the subject matter in question, elected politicians need to call the shots; ‘that’s what you elect people to do, to take decisions’, as one of the people we took evidence from on reforming taxation conceded. Those decisions will not always be right. The challenge for Treasury officials is to minimise the risk of the wrong decisions being made and to do so they need to understand the political pressures facing their masters while remaining neutral and technocratic in their advice. Shining a spotlight on this area of policy, opening it up to wider debate and discussion, will professionalise the process and take some of the stress out of the choices that do have to be made.

4 Spend

The budget is the most visible event in the chancellor's year; traditionally the holder of the office stands on the steps of the Treasury or No 11 Downing Street, brandishing the red box that contains his speech. This focus on the budget is the clearest demonstration of how central the need to control spending is to the chancellor's role.

As the money counters, Treasury mandarins have been notorious through generations for blocking spending. Liam Byrne's much cited note to his successor as chief secretary following the 2010 election, 'I'm afraid there is no money', is used by the Coalition as a comment on Labour's spending; it could equally be read as advice from the Treasury's spending teams to the new chief secretary of the words to be used when dealing with a begging department.

The job of these spending teams is to monitor the financial activities of all government departments, including those parts of the Treasury itself that have programme budgets. The approval of these teams is required for any alteration in the way that Whitehall departments spend their money. As a result, they in effect hold the purse strings. And across Whitehall they have attracted the reputation of nay-sayers to such an extent that there was some evidence during the course of our research that their nay-saying ran the risk of being discounted – for what else did they have the power to say?

One former special adviser, for example, described to us how government spending was seen as a game, in which the minister knew that the Treasury would refuse money. The refusal came so often that it was no longer taken seriously. Instead, advisers simply kept asking different people, knowing eventually they could get permission. This view is reinforced by an academic commentary on the Treasury by Parry, Hood and

James, which compared the relationship between the Treasury and other departments to the Prisoner's Dilemma.[48] In this model cooperation would be most beneficial to both sides, but if one side were to renege on the agreement the penalty would be extortionate; as a result, neither side cooperates.

The fact that the advice of the spending teams is something that is gamed within Whitehall makes it less likely that resources are actually allocated efficiently. One of our interviewees, who not only served as a treasury civil servant in the 1980s but also has extensive experience as a special adviser in both the Blair and Brown administrations, described it thus:

Ideally the role of the Treasury should make sure value for money is happening everywhere and, when allocating money, that the marginal pound is worth the same anywhere you put it.

In reality, there is little evidence that this happens. Unlike in the corporate sector, where the outputs are clear and can be monetarised, the differing nature of the various things that government is attempting to achieve makes it hard for them to be expressed in a common currency, be it money or something else, although the Treasury does attempt to set out the framework for the evaluation of all projects and programmes through its 'Green book' of advice to the rest of government.

One area for potential improvement is to change the way that invest-to-save projects are accounted for. Part of Gordon Brown's legacy is investment in children's centres, lauded on introduction for their foresightedness; if effective, any financial and/or social return, through lowering the cost of crime or increasing the earnings potential of the children, would not come for decades and well after their political champions had left office. Yet they required up-front capital and revenue costs, and so would not pass the routine tests of the Treasury spending teams without considerable political will in the system. There are numerous other 'early intervention' projects in the field of family and social policy that could well yield financial returns further down the line, if only there was a standardised metric with which to assess longer-term returns.

Similarly, there has until recently been no connection in policy terms between so-called departmental spending limit (DEL) budgets, which refer to the costs of spending on distinct policy initiatives (such as training and health), and annually managed expenditure (AME) budgets, which are given as a right dependent on external demand, such as social security and pension payments. Of course, in practice there is a huge connection between the two: increased DEL investment on retraining can reduce AME expenditure on unemployment benefits; increased DEL expenditure on mental health services and drug addiction treatment can also make a huge difference to someone's ability to hold down a job. These financial savings from up-front investment can be quantified and costed, so that an investment case can be clearly made. Yet until very recently the internal rules did not make it possible for such switching between budgets to be countenanced. AME spending was not considered something that could be altered.

In the last years of the Labour Government some so-called DEL–AME swaps were belatedly countenanced in the area of benefits policy; this is an area of activity that deserves rapid expansion even in an era of spending cuts, simply because of the potential gains in output and making efficient use of taxpayers' money.

The picture has been complicated since the 2010 election by the slimming down of the Treasury and the creation of a new Efficiency and Reform Group under the ministerial direction of Francis Maude in the Cabinet Office. An insider who we interviewed described the relationship between the two as 'a monumental turf war'. Another said that the Treasury had

a desire to have a role in performance, which creates a huge duplication with Cabinet Office… [yet] it feels that the Efficiency and Reform Group are being asked to take on the performance role, and the Treasury monitoring on risk basis the likelihood of anything failing.

This person went on to say that the Treasury was being asked to make the biggest staff reductions in this area, 'without actually letting go'. A third interviewee on this subject said the

Treasury is not now 'playing its key role of scrutinising big grandiose plans' and the historical tension between the Treasury and No 10 had been a useful check and balance on ill-conceived projects in the past.

We feel these changes to the government machinery mitigate the ability of the Treasury to scrutinise the relative value for money of various different projects. We recommend that the Treasury should retain the key role in Whitehall in quantifying the risk and return of government policies, rather than dividing this task between the Treasury and the Efficiency and Reform Group. In this respect we agree with Sam Brittan, who argued, 'I do not think [the Treasury] is nearly powerful enough. It is the only department that stands for the interests of the taxpayer, the consumer and the general citizen.'[49]

Under Labour, the creation of public service agreements (PSAs) was an attempt to hold departments to account in the delivery of key outcomes. The PSAs specified objectives and how they would be achieved through a series of 'new objective and measurable efficiency targets'.[50] They promoted more joint working in the government – there were 15 cross-department reviews organised in the 2000 Spending Review – but they also gave the Treasury far more control over policy formulation and evaluation.

A former permanent secretary told the *Financial Times* in a 2007 interview that Brown's methods were 'Stalinist': he would announce three days before a budget: 'This is what you are getting and here are your public service agreements.'[51] One of our interviewees recalled Brown falling asleep in an official meeting convened to control spending, making the decisions personally at a later date.

As a result, the actual role of controlling spending came to seem less glamorous; as one former senior civil servant told us, 'spending control came to be seen as a career dead-end'. In the post-2010 Coalition Government, departments are being asked to come up with their own measures against which they will be judged. This may well be better than having targets imposed on them, but only if they are then effectively held to account against their own objectives. Having a turf war between the Cabinet

Office and the Treasury over who is in charge of that process is unlikely to make it more effective. Indeed, as one former senior civil servant told us, 'when organising spending budgets, finance ministers need to have advice on the quality of the arguments they are getting across the table'. We therefore recommend that Treasury spending teams should be strengthened by the more structured use of individuals with significant experience in policy and spending control within departments.

In this regard, the Coalition Government would do well to revisit the principles of the 1994 Fundamental Expenditure Review, which as far as spending was concerned advocated a shift away from veto power over other secretaries of state to a far more generalised control. In contrast to the 'porthole' principle, monitoring distinct spending streams, the new model was designed to create the sense of a unified team across government.

The FER contained the idea of a proactive spending division to focus on strengthening the economy with supply-side and long-term measures. The Treasury's expenditure divisions were encouraged to contribute towards spending plans rather than simply saying 'no', in what the FER labelled 'strategic partnerships'. In the report, the authors stressed this would 'require some departments to demonstrate a greater willingness to share management and financial information with the Treasury on a voluntary basis, than they have tended to show hitherto'.[52]

Labour post-1997 consolidated the principles contained in the FER. Now, spending was capped by a DEL; this was planned on a three yearly cycle, which was reviewed every two years. Labour introduced separate capital and resource budgets, under which departments could only spend money on the specific category, and which mirrored one of their fiscal rules: that current (not capital) spending should be in balance over an economic cycle. The concept of end-year flexibility was also introduced whereby departments had more control over how to carry forward or reprioritise any underspend in a given financial year.

There was also slow development in how public spending is accounted for and managed. The adoption of accounting for real activity, rather than just cash in and out, happened very late in the day; the decision taken that all department finance directors should have professional accounting qualifications was only made in 2004. Such examples indicate the unacceptable slowness of progress in this area.

Far more can be done to incentivise departments to exercise greater cost controls, for example by allowing them to keep a proportion of any real cost savings they realise; this would be a useful addition to the system of end-year flexibility, which can have the effect of encouraging projects to over-run.

Also required is a change in the way that the Treasury presents its accounts. 'There seems to still be a lot of cash-based accounting around' said a senior accountant outside government. Former Cabinet Secretary Andrew Turnbull has called for 'a balance sheet that displays the huge assets and liabilities it has acquired during the course of the financial crisis, and also the liabilities flowing from public service pensions'.[53] His advice has been heeded: so-called 'whole of government accounts' are in the process of being prepared.

These are structural changes that will in the long run help the government accurately measure its spending and therefore control it. Having a secretive Treasury, which dictates spending to other departments, is no longer a viable model. The Coalition Government has set a direction that will see radical change in Whitehall. There needs to be more departmental autonomy over spending, giving the departments a sense of possession rather than resentment over the targets. But this has to be coupled with far stronger Treasury measurement of their progress, and openness to genuinely innovative invest-to-save proposals.

Final word

The civil service is going through a period of major change. Amid the reshuffling of responsibilities in Whitehall, there is a real opportunity not just to scale down but to reorganise departments for the better. Senior civil servants and government officials should heed the advice that has been provided out of our interviewees' years of accumulated experience in the Treasury.

We believe that our recommendations would over time strengthen and professionalise the Treasury. They would provide clarity about the department's role and the accumulation of greater expertise within its walls, and improve drastically the scrutiny and checks on the proposals it puts forward to ministers and the outside world. All these changes will improve the quality of decision making. This is not only in the long-term interests of the department but also in the interests of all those people who are affected by the decisions it makes.

Notes

1 Both quotes come from Lord Healey's contribution to *The Chancellors' Tales: Managing the British economy* edited by Howard Davies, Cambridge: Polity Press, 2006.

2 Quoted in D Lipsey, *The Secret Treasury: how Britain's economy is really run',* London: Viking, 2000*,* p ix.

3 N Macpherson, speech at ESRC Seminar, All Souls', Oxford, 9 Dec 2009, p 24.

4 Quoted in Lipsey, *The Secret Treasury,* p 18.

5 Quoted by C Thain and R Christie in 'Treasury power: past, present and future', ESRC research paper, http://colinthain.com/images/pub_uploads/pacpaper.pdf (accessed 9 Feb 2011).

6 Quoted in Lipsey, *The Secret Treasury,* p 1.

7 Ibid, p 4.

8 Quoted in Thain and Christie, 'Treasury power'.

9 N Timmins, 'UK Chancellor accused of "Stalinist" style', *Financial Times,* 20 Mar 2007.

10 Treasury Select Committee, Third Report, 30 Jan 2001, para 21.

11 Ibid, p 69.

12 See R Parry, C Hood and O James, 'Reinventing the Treasury: economic rationalism or an econocrat's fallacy of control?', *Public Administration* 75, autumn 1997; N Deakin and R Parry, *The Treasury and Social Policy: The contest for control of Welfare strategy*, Basingstoke: Macmillan, 2000.

13 HM Treasury, 'Fundamental Expenditure Review: Executive summary', 1994, http://archive.treasury.gov.uk/pub/html/fer94/exec_sum.html (accessed 9 Feb 2011).

14 Quoted in G Lodge and B Rogers, *Whitehall's Black Box: Accountability and performance in the senior civil service*, London: ippr, 2006.

15 Quoted in Thain and Christie, 'Treasury power'.

16 Quoted in Lipsey, *The Secret Treasury,* p 82.

17 Baroness Quinn at the Cabinet Office Inquiry, House of Lords, Select Committee on the Constitution, *The Cabinet Office and the Centre of Government,* 4th Report of Session 2009–10, HL Paper 30, 24 Jun 2009, p 19.

18 This point is argued further in K Ussher, *City Limits: The progressive case for financial services*, London: Demos 2011.

19 Fundamental Expenditure Review, p 4.

20 Quoted in Lipsey, *The Secret Treasury,* p 108.

21 House of Commons, Treasury Committee, *Office for Budget Responsibility*, Fourth Report of Session 2010–11, HC 385, p 8.

22 House of Commons, Treasury Committee, 20 Jul 2010, ev 1.

23 Ibid, ev 2.

24 Ibid, ev 9.

25 C Giles, 'The OBR's flaws (and benefits)', blog, *Financial Times*, 17 May 2010, http://blogs.ft.com/money-supply/2010/05/17/the-obrs-flaws-and-benefits/ (accessed 9 Feb 2011).

26 G Osborne, 'Terms of reference for the Office for Budget Responsibility', letter to Sir Alan Budd, 8 Jun 2010, p 2, http://budgetresponsibility.independent.gov.uk/d/terms_of_reference.pdf (accessed 9 Feb 2011).

27 Quoted in J Alt, I Preston and L Sibieta, 'The political economy of tax policy' in Mirrlees Review, www.ifs.org.uk/mirrleesReview (accessed 10 Feb 2011), p 1211.

28 Ibid, p 1273.

29 G Howe, 'Making taxes simpler: the final report of a working party chaired by Lord Howe of Aberavon', July 2008, www.tax-news.com/asp/res/makingtaxessimpler.pdf (accessed 10 Feb 2011).

30 Alt, Preston and Sibieta, 'The political economy of tax policy', p 1273–4.

31 House of Commons Treasury Committee, *Office for Budget Responsibility*, Fourth Report of Session 2010–11, HC 385, annex: fiscal councils overseas, pp 48–9.

32 See Alt, Preston and Sibieta, 'The political economy of tax policy', p 1271.

33 'Commentary by Peter Riddell', response to Alt et al, 'The political economy of tax policy' in Mirrlees Review, p 1293.

34 Ibid, p 1286.

35 'Commentary by Chris Wales', response to Alt et al, 'The political economy of tax policy', p 1305.

36 HMT, *Tax Policy Making: A new approach*, London: HM Treasury, Jun 2010.

37 G O'Donnell, *Financing Britain's Future: Review of the revenue departments*, London: HM Treasury, March 2004.

38 Commentary by Chris Wales', response to Alt et al 'The political economy of tax policy', p 1305.

39 G O'Donnell, 'The modern Treasury: macro good, micro better', speech, 5 Feb 2004.

40 G O'Donnell, 'Reforming Britain's tax administration and policymaking', speech, 18 Nov 2004.

41 Select Committee on the Treasury, 'Memorandum submitted by tax faculty of the Institute of Chartered Accountants in England and Wales, 17 Jan 2007.

42 O'Donnell, *Financing Britain's Future*, p 9.

43 Outlined on the Treasury Inspector General for Tax Administration website, www.ustreas.gov/tigta/ (accessed 21 Feb 2011).

44 CBI, *UK Business tax: A compelling case for change*, London: Confederation of British Industry, 2008, p 5.

45 Quoted in K Stacey, 'Osborne launches unit to simplify tax system', *Financial Times,* 20 Jul 2010.

46 Statement on HM Treasury website, 'Tax reliefs review', 2010, www.hm-treasury.gov.uk/ots_taxreliefsreview.htm (accessed 9 Feb 2011).

47 T Bowler, *Tax Policy Making in the UK*, London: Institute for Fiscal Studies, June 2010, www.ifs.org.uk/publications/5170 (accessed 9 Feb 2011), p 11.

48 Parry, Hood and James, 'Reinventing the Treasury', p 406.

49 Sam Brittan speaking at a Treasury Select Committee in 2000, quoted in Nicholas Macpherson's speech, p 2.

50 Quoted by S Lee and R Woodward, 'Implementing the third way: the delivery of services under the Blair government', *Public Money & Management* 22, no 4, Oct 2002, pp 50–1.

51 Nicholas Timmins interview, *Financial Times,* 20 Mar 2007.

52 Quoted by Parry, Hood and James, 'Reinventing the Treasury', p 406.

53 A Turnbull, 'Six steps to salvage the Treasury', *Financial Times,* 10 Jan 2010.

References and bibliography

Alt, J, Preston, I and Sibieta, L, 'The political economy of tax policy' in Mirrlees Review, www.ifs.org.uk/mirrleesReview (accessed 10 Feb 2011).

Bourgon, J, *The Government of Canada's Experience of Eliminating the Deficit, 1994–99: A Canadian case study*, London: Institute for Government, 2009.

Bowler, T, *Tax Policy Making in the UK*, London: Institute for Fiscal Studies, 2010, www.ifs.org.uk/publications/5170 (accessed 9 Feb 2011).

CBI, *UK Business tax: A compelling case for change*, London: Confederation of British Industry, 2008.

Coates, S, 'Osborne's "Star Chamber" at the sharp end', BBC News UK, 4 Sep 2010, www.bbc.co.uk/news/uk-11170954 (accessed 9 Feb 2011).

Davies, H (ed), *The Chancellors' Tales: Managing the British economy*, Cambridge: Polity Press, 2006.

Deakin, N and Parry, R, *The Treasury and Social Policy: The contest for control of welfare strategy*, Basingstoke: Macmillan, 2000.

Giles, C, 'The OBR's flaws (and benefits)', blog, *Financial Times*, 17 May 2010, http://blogs.ft.com/money-supply/2010/05/17/the-obrs-flaws-and-benefits/ (accessed 9 Feb 2011).

Giles, C and Parker, G, 'Osborne seeks consensus over cuts', *Financial Times,* 6 Jun 2010.

Hennessy, P, *The Prime Minister: The office and its holders since 1945*, London: Penguin, 2000.

HM Treasury, *Financing Britain's Future: Review of the revenue departments*, London: HM Treasury, 2004

HM Treasury, 'Fundamental Expenditure Review: executive summary', 1994, http://archive.treasury.gov.uk/pub/html/fer94/exec_sum.html (accessed 9 Feb 2011).

HM Treasury, *Government Response to the House of Commons Treasury Committee: Office for Budget Responsibility*, 4th Report of Session 2010–11, Cm 7962, London: HM Treasury, 2010.

HM Treasury, *Tax Policy Making: A new approach*, London: HM Treasury, 2010.

HM Treasury, 'Tax reliefs review', 2010, www.hm-treasury.gov.uk/ots_taxreliefsreview.htm (accessed 9 Feb 2011).

House of Commons, Committee of Public Accounts, *Financing PFI Projects in the Credit Crisis and the Treasury's Response,* 9th Report of Session 2010–11, HC 553, London: The Stationery Office, 2010, p.3.

House of Commons, Treasury Committee, *Office for Budget Responsibility*, 4th Report of Session 2010–11, HC 385, vol 1, London: The Stationery Office, 2010.

House of Lords, Select Committee on the Constitution, *The Cabinet Office and the Centre of Government,* 4th Report of Session 2009–10, HL Paper 30, 24 Jun 2009.

Howe, G, 'Making taxes simpler: the final report of a working party chaired by Lord Howe of Aberavon', 2008, www.tax-news.com/asp/res/makingtaxessimpler.pdf (accessed 10 Feb 2011).

Jenkins, S, 'The "Star Chamber", PESC and the cabinet', *Political Quarterly* 56, 1985.

Lee, S and Woodward, R, 'Implementing the third way: the delivery of services under the Blair government', *Public Money & Management* 22, no 4, Oct 2002.

Lipsey, D, *The Secret Treasury: How Britain's economy is really run,* London: Viking, 2000, p ix.

Lodge, G and Rogers, B, *Whitehall's Black Box: Accountability and performance in the senior civil service*, London: ippr, 2006.

Macpherson, N, speech at ESRC Seminar, All Souls', Oxford, 9 Dec 2009.

Norman, J, 'Hard times call for a new rebate on PFI deals', *Financial Times,* 16 Aug 2010.

O'Donnell, G, *Financing Britain's Future: Review of the revenue departments*, London: HM Treasury, March 2004.

O'Donnell, G, 'Reforming Britain's tax administration and policymaking', speech, 18 Nov 2004.

O'Donnell, G, 'The modern Treasury: macro good, micro better', speech, 5 Feb 2004.

Osborne, G, 'Terms of reference for the Office for Budget Responsibility', letter to Sir Alan Budd, 8 Jun 2010, http://budgetresponsibility.independent.gov.uk/d/terms_of_reference.pdf (accessed 9 Feb 2011).

Osborne, G, speech at HM Treasury, 17 May 2010, www.hm-treasury.gov.uk/press_02_10.htm (accessed 11 Feb 2011).

Osborne, G, speech at the Lord Mayor's dinner for bankers and merchants of the City of London, Mansion House, 16 Jun 2010.

Osborne, G, *Spending Review Statement,* London: HM Treasury, 2010, www.hm-treasury.gov.uk/spend_sr2010_speech.htm (accessed 9 Feb 2011).

Parker, G, 'Mandarin takes star role in Christmas tree panto', *Financial Times,* 9 Dec 2010.

Parker, G, 'Osborne plans 25% Treasury staff cuts', *Financial Times,* 30 Aug 2010.

Parker, G and Barker, A, 'Star Chamber fails to dazzle', *Financial Times,* 15 Oct 2010.

Parry, R, Hood, C and James, O, 'Reinventing the Treasury: economic rationalism or an econocrat's fallacy of control?', *Public Administration* 75, autumn 1997

Rawnsley, A, *The End of the Party: The rise and fall of New Labour*, London: Viking, 2010.

Select Committee on the Treasury, 'Memorandum submitted by tax faculty of the Institute of Chartered Accountants in England and Wales', 17 Jan 2007.

Stacey, K, 'Osborne launches unit to simplify tax system', *Financial Times,* 20 Jul 2010.

Thain, C and Christie, R, 'Treasury power: past, present and future', ESRC research paper, http://colinthain.com/images/pub_uploads/pacpaper.pdf (accessed 9 Feb 2011).

Timmins, N, 'UK Chancellor accused of "Stalinist" style', *Financial Times,* 20 Mar 2007.

Treasury Inspector General for Tax Administration website, http://www.ustreas.gov/tigta/ (accessed 21 Feb 2011).

Treasury Select Committee, Third Report, 30 Jan 2001.

Turnbull, A, 'Six steps to salvage the Treasury', *Financial Times,* 10 Jan 2010.

Ussher, K, *City Limits: The progressive case for financial services*, London: Demos 2011.

Wright, M, *Treasury Control of the Civil Service 1854–1874*, Oxford: Clarendon Press, 1969.

Demos – Licence to Publish

The work (as defined below) is provided under the terms of this licence ('licence'). The work is protected by copyright and/or other applicable law. Any use of the work other than as authorised under this licence is prohibited. By exercising any rights to the work provided here, you accept and agree to be bound by the terms of this licence. Demos grants you the rights contained here in consideration of your acceptance of such terms and conditions.

1 Definitions

A **'Collective Work'** means a work, such as a periodical issue, anthology or encyclopedia, in which the Work in its entirety in unmodified form, along with a number of other contributions, constituting separate and independent works in themselves, are assembled into a collective whole. A work that constitutes a Collective Work will not be considered a Derivative Work (as defined below) for the purposes of this Licence.

B **'Derivative Work'** means a work based upon the Work or upon the Work and other pre-existing works, such as a musical arrangement, dramatisation, fictionalisation, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which the Work may be recast, transformed, or adapted, except that a work that constitutes a Collective Work or a translation from English into another language will not be considered a Derivative Work for the purpose of this Licence.

C **'Licensor'** means the individual or entity that offers the Work under the terms of this Licence.

D **'Original Author'** means the individual or entity who created the Work.

E **'Work'** means the copyrightable work of authorship offered under the terms of this Licence.

F **'You'** means an individual or entity exercising rights under this Licence who has not previously violated the terms of this Licence with respect to the Work, or who has received express permission from Demos to exercise rights under this Licence despite a previous violation.

2 Fair Use Rights

Nothing in this licence is intended to reduce, limit, or restrict any rights arising from fair use, first sale or other limitations on the exclusive rights of the copyright owner under copyright law or other applicable laws.

3 Licence Grant

Subject to the terms and conditions of this Licence, Licensor hereby grants You a worldwide, royalty-free, non-exclusive, perpetual (for the duration of the applicable copyright) licence to exercise the rights in the Work as stated below:

A to reproduce the Work, to incorporate the Work into one or more Collective Works, and to reproduce the Work as incorporated in the Collective Works;

B to distribute copies or phonorecords of, display publicly, perform publicly, and perform publicly by means of a digital audio transmission the Work including as incorporated in Collective Works; The above rights may be exercised in all media and formats whether now known or hereafter devised. The above rights include the right to make such modifications as are technically necessary to exercise the rights in other media and formats. All rights not expressly granted by Licensor are hereby reserved.

4 Restrictions

The licence granted in Section 3 above is expressly made subject to and limited by the following restrictions:

A You may distribute, publicly display, publicly perform, or publicly digitally perform the Work only under the terms of this Licence, and You must include a copy of, or the Uniform Resource Identifier for, this Licence with every copy or phonorecord of the Work You distribute, publicly display, publicly perform, or publicly digitally perform. You may not offer or impose any terms on the Work that alter or restrict the terms of this Licence or the recipients' exercise of the rights granted here under. You may not sublicence the Work. You must keep intact all notices that refer to this Licence and to the disclaimer of warranties. You may not distribute, publicly display, publicly perform, or publicly digitally perform the Work with any technological measures that control access or use of the Work in a manner inconsistent with the terms of this Licence Agreement. The above applies to the Work as incorporated in a Collective Work, but this does not require the Collective Work apart from the Work itself to be made subject to the terms of this Licence. If You create a Collective Work, upon notice from any Licensor You must, to the extent practicable, remove from the Collective Work any reference to such Licensor or the Original Author, as requested.

B You may not exercise any of the rights granted to You in Section 3 above in any manner that is primarily intended for or directed towards commercial advantage or private monetary compensation. The exchange of the Work for other copyrighted works by means of digital filesharing or otherwise shall not be considered to be intended for or directed towards commercial advantage or private monetary compensation, provided there is no payment of any monetary compensation in connection with the exchange of copyrighted works.

C If you distribute, publicly display, publicly perform, or publicly digitally perform the Work or any Collective Works, You must keep intact all copyright notices for the Work and give the Original Author credit reasonable to the medium or means You are utilising by conveying the name (or pseudonym if applicable) of the Original Author if supplied; the title of the Work if supplied. Such credit may be implemented in any reasonable manner; provided, however, that in the case of a Collective Work, at a minimum such credit will appear where any other comparable authorship credit appears and in a manner at least as prominent as such other comparable authorship credit.

5 Representations, Warranties and Disclaimer

A By offering the Work for public release under this Licence, Licensor represents and warrants that, to the best of Licensor's knowledge after reasonable inquiry:

i Licensor has secured all rights in the Work necessary to grant the licence rights hereunder and to permit the lawful exercise of the rights granted hereunder without You having any obligation to pay any royalties, compulsory licence fees, residuals or any other payments;

ii The Work does not infringe the copyright, trademark, publicity rights, common law rights or any other right of any third party or constitute defamation, invasion of privacy or other tortious injury to any third party.

B except as expressly stated in this licence or otherwise agreed in writing or required by applicable law, the work is licenced on an 'as is' basis, without warranties of any kind, either express or implied including, without limitation, any warranties regarding the contents or accuracy of the work.

6 Limitation on Liability

Except to the extent required by applicable law, and except for damages arising from liability to a third party resulting from breach of the warranties in section 5, in no event will Licensor be liable to you on any legal theory for any special, incidental, consequential, punitive or exemplary damages arising out of this licence or the use of the work, even if Licensor has been advised of the possibility of such damages.

7 Termination

A This Licence and the rights granted hereunder will terminate automatically upon any breach by You of the terms of this Licence. Individuals or entities who have received Collective Works from You under this Licence, however, will not have their licences terminated provided such individuals or entities remain in full compliance with those licences. Sections 1, 2, 5, 6, 7, and 8 will survive any termination of this Licence.

B Subject to the above terms and conditions, the licence granted here is perpetual (for the duration of the applicable copyright in the Work). Notwithstanding the above, Licensor reserves the right to release the Work under different licence terms or to stop distributing the Work at any time; provided, however that any such election will not serve to withdraw this Licence (or any other licence that has been, or is required to be, granted under the terms of this Licence), and this Licence will continue in full force and effect unless terminated as stated above.

8 Miscellaneous

A Each time You distribute or publicly digitally perform the Work or a Collective Work, Demos offers to the recipient a licence to the Work on the same terms and conditions as the licence granted to You under this Licence.

B If any provision of this Licence is invalid or unenforceable under applicable law, it shall not affect the validity or enforceability of the remainder of the terms of this Licence, and without further action by the parties to this agreement, such provision shall be reformed to the minimum extent necessary to make such provision valid and enforceable.

C No term or provision of this Licence shall be deemed waived and no breach consented to unless such waiver or consent shall be in writing and signed by the party to be charged with such waiver or consent.

D This Licence constitutes the entire agreement between the parties with respect to the Work licenced here. There are no understandings, agreements or representations with respect to the Work not specified here. Licensor shall not be bound by any additional provisions that may appear in any communication from You. This Licence may not be modified without the mutual written agreement of Demos and You.

The Treasury is a uniquely powerful government department. In holding the state's purse strings, it determines the fate of governments. The task of eliminating the structural deficit and the success of the Coalition Government rests on an effective Treasury. But what is not clear is whether the Treasury in its current form can rise to meet the challenge.

National Treasure explores the recent history of the Treasury and asks whether it is fit for the challenge the Government has set. It draws on the experiences of former and current civil servants, advisers and ministers, few of whom question the need for reform.

That reform is laid out four ways: organisation and scope; tax; spending; and accountability. In each of these, the authors recommend that the Treasury clarify its remit, cultivate expertise in its workforce and make its policy recommendations more transparent. These changes would strengthen the Treasury while making it subject to greater scrutiny and improving the quality of its decision-making at this critical juncture.

Kitty Ussher is the Director of Demos. Imogen Walford is a Junior Economist at Demos.

ISBN 978-1-906693-63-3 £10