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THE UK COVID-19 INQUIRY

MODULE 1 CORPORATE WITNESS STATEMENT OF HIS MAJESTY'S TREASURY

FIRST WITNESS STATEMENT OF CATHERINE LITTLE

1. I, Catherine Little, make this statement on behalf of His Majesty's Treasury ("HM Treasury" or "the Department"). My work address is HM Treasury, 1 Horse Guards Road, London, SW1 2HQ and my date of birth can be supplied to the Inquiry upon request.

2. I am providing this statement in response to the Inquiry's draft Rule 9 request dated 11 October 2022 ("the Rule 9 request") on behalf of the Department.

3. I joined the Civil Service in 2013 in the Legal Aid Agency. I have also worked in Finance roles in the Ministry of Justice and the Ministry of Defence. In 2020 I joined HM Treasury as Director General Public Spending. I have been HM Treasury's Second Permanent Secretary since October 2022. In this role, I oversee public spending, international and national security policy.

4. Whilst I have some personal recollection of some of the events or processes described in this witness statement, I have also co-ordinated and liaised with a number of colleagues with the relevant knowledge and experience across the Department. Their contributions have been used to respond to the questions in the Rule 9 request. My statement therefore relies upon those contributions to form the responses in this statement. I am also reliant on document archive searches conducted by colleagues.

5. My statement should be read subject to the caveats above. I have done my best to assist the Inquiry on behalf of the Department against these limitations. If further material is made available to me, I would be happy to add to or clarify this statement to take it into account.

Introduction

6. HM Treasury is the government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy, and working to achieve strong and sustainable economic growth.

7. HM Treasury inputs into Cabinet level decision making through the Chancellor of the Exchequer and Chief Secretary to the Treasury, focusing on its objectives (set out in para 6). HM Treasury officials' role is to advise our ministers, who take decisions on behalf of the department (including via cabinet collective agreement processes – see para 14 below). The positions taken by HM Treasury officials, for example, when engaging in

cross-departmental negotiations, are determined by our ministers. It is ultimately the role of the Prime Minister to balance objectives across government to reach collective decisions.

8. While planning and preparing for pandemics is not the lead responsibility of HM Treasury, HM Treasury's involvement in pandemic planning and preparedness, and more general preparedness for civil emergencies, falls into four categories:

    a. How HM Treasury assesses and manages risk, and the processes that enable the department to respond quickly to economic or financial crises, building on lessons learned from the 2008 financial crisis;

    b. HM Treasury's broad role in monitoring and responding to risks to the economy and public finances (viewed through the lens of the HM Treasury's dual role as an economics and finance ministry);

    c. HM Treasury's lead responsibility in government for monitoring and responding to risks to the stable operation of the UK financial system;

    d. HM Treasury's role in setting budgets and applying spending controls for government departments, associated bodies and the devolved administrations.

9. HM Treasury addresses each of these categories in turn in this statement. The statement also covers HM Treasury's involvement in pandemic planning with the Department of Health and Social Care ("DHSC") and how HM Treasury's risk management systems and processes were engaged as the Covid-19 pandemic emerged.

10. Throughout this statement, HM Treasury has also set out how these systems and processes were engaged and used in an agile way to respond to the pandemic, the lessons that have been learned, and the changes and proactive improvements made to these processes during the response to the pandemic and since. These lessons and improvements are across the spectrum of HM Treasury's work, for example, refinements in how economic and fiscal risks are monitored and escalated in the department, and how the department surges resource to respond at pace, building on lessons learned and action taken after the 2008/9 financial crisis. In a number of areas, HM Treasury has learned lessons from the pandemic and is driving change and improvement across government. Improvements made include supporting better risk management capability across government, improving financial oversight and accountability across government,

building in flexibility on spending controls to respond to urgent spending requests, and implementing new frameworks to assess, prevent, and report on the risk of fraud.

11. This statement is structured as follows:

    a. HM Treasury's role in cross-government emergency planning;

    b. HM Treasury's risk management structures and operational preparedness;

    c. HM Treasury's role in monitoring risks to the economy;

    d. HM Treasury's role in overseeing financial stability risks;

    e. HM Treasury's spending control role, including for civil emergencies;

    f. HM Treasury's engagement with DHSC in pandemic planning, relevant economic analysis of historic flu outbreaks and relevant scientific funding; and

    g. HM Treasury's response to the emergence of the Covid-19 pandemic (until 21 Jan 2020 – the period under investigation in Module 1).

12. A series of annexes provide additional detail of relevance to the scope of Module 1 of the Inquiry.

HM Treasury's role in cross-government emergency planning

13. Emergency preparedness, except in the case of a crisis originating in the financial system (financial stability risk management is covered extensively in paras 91-136 in this statement), is not a lead responsibility of HM Treasury. Prior to the Covid-19 pandemic, the Civil Contingencies Secretariat ("CCS"), based in the Cabinet Office, led emergency planning.

14. The Cabinet Office lead the cross-government processes for 'collective agreement' of Government policy. The Cabinet Secretariat exists to ensure that government business is conducted in an effective and timely way and that collective consideration takes place. It should be noted that some aspects of HM Treasury's policy responsibilities, for example, tax policy-making (undertaken with HMRC) are not subject to collective decision-making

procedures. This applies in a business-as-usual environment and during periods of emergency. The Cabinet Office Briefing Room ("COBR") is the mechanism for agreeing the central government response to major emergencies that have international, national or multi-regional impacts.

15. Multiple HM Treasury teams cooperate fully with the Cabinet Office. Before the Covid-19 pandemic, pandemic preparedness was led by DHSC and Public Health England ("PHE"), in conjunction with CCS. However, HM Treasury engages with departments who are responsible for specific risk planning to provide targeted support in civil emergency preparedness where appropriate.

16. Like other departments, HM Treasury feeds into the Cabinet Office National Security Risk Assessment ("NSRA"), which is a classified assessment, with risks published on the National Risk Register ("NRR"). HM Treasury may determine whether certain risks should be on the NSRA. For the risks where HM Treasury is allocated as a lead department, it develops scenarios and determines the potential impacts and likelihood of the risk in question. This was the case prior to the Covid-19 pandemic.

HM Treasury's risk management structures

Overview of HM Treasury's management structures involved in risk management

17. The following HM Treasury management boards and committees oversee the department's approach to risk assessment and management.

<u>The Treasury Board</u>

18. The Treasury Board is the most senior of the department's oversight committees. The board draws together ministerial and civil service leadership with Non-Executive Directors ("NED") who are experts from outside of government. The board is chaired by the Chancellor.

<u>The Treasury Board Sub-Committee</u>

19. The Treasury Board Sub-Committee ("TB(SC)") is the second-most senior board and has delegated authority from the Treasury Board. It is chaired by the lead Non-Executive Director.

20. TB(SC) considers performance, key risks, and policy. It has oversight of the wider Treasury Group. Treasury Group is made up of the core department and its arm's length bodies ("ALBs"), which are a combination of executive agencies, non-departmental public bodies ("NDPBs"), companies and additional bodies. Directors are responsible for ensuring that there is an effective risk management system in place to address risks to delivery and budgets within ALBs and other entities where they hold sponsorship responsibility.

The Executive Management Board

21. HM Treasury's Executive Management Board ("EMB") are responsible for leading, motivating, and challenging the department, and ensuring that high quality advice is given to ministers and the department responds to ministerial priorities. EMB are also responsible for risk management; ensuring sound internal controls; allocating and managing resource.

22. EMB meets at a minimum weekly to lead the department's response to ministerial priorities. EMB is chaired by the Permanent Secretary.

23. EMB oversees an annual business planning process, which sets the department's priorities and resourcing plans for the year ahead. This focuses on the Treasury's core functions, ministerial priorities and identified risks.

24. EMB reviews and updates its priority outcomes during the year, delivery against the department's work programme, and the efficient and effective allocation of resources.

The Operating Committee

25. The Operating Committee ("OpCo") is a sub-committee of EMB that oversees the department's financial, planning, and risk management issues and provides additional oversight on operational issues that materially affect the level of risk arising in the broader Treasury Group.

26. OpCo's purpose is to ensure that the department has robust procedures and business processes that support the department's overall strategy and business needs and that they operate effectively and appropriately.

27. OpCo also acts in an advisory capacity in relation to finance and staffing and assures/provides approval for business cases. OpCo is chaired by a Second Permanent

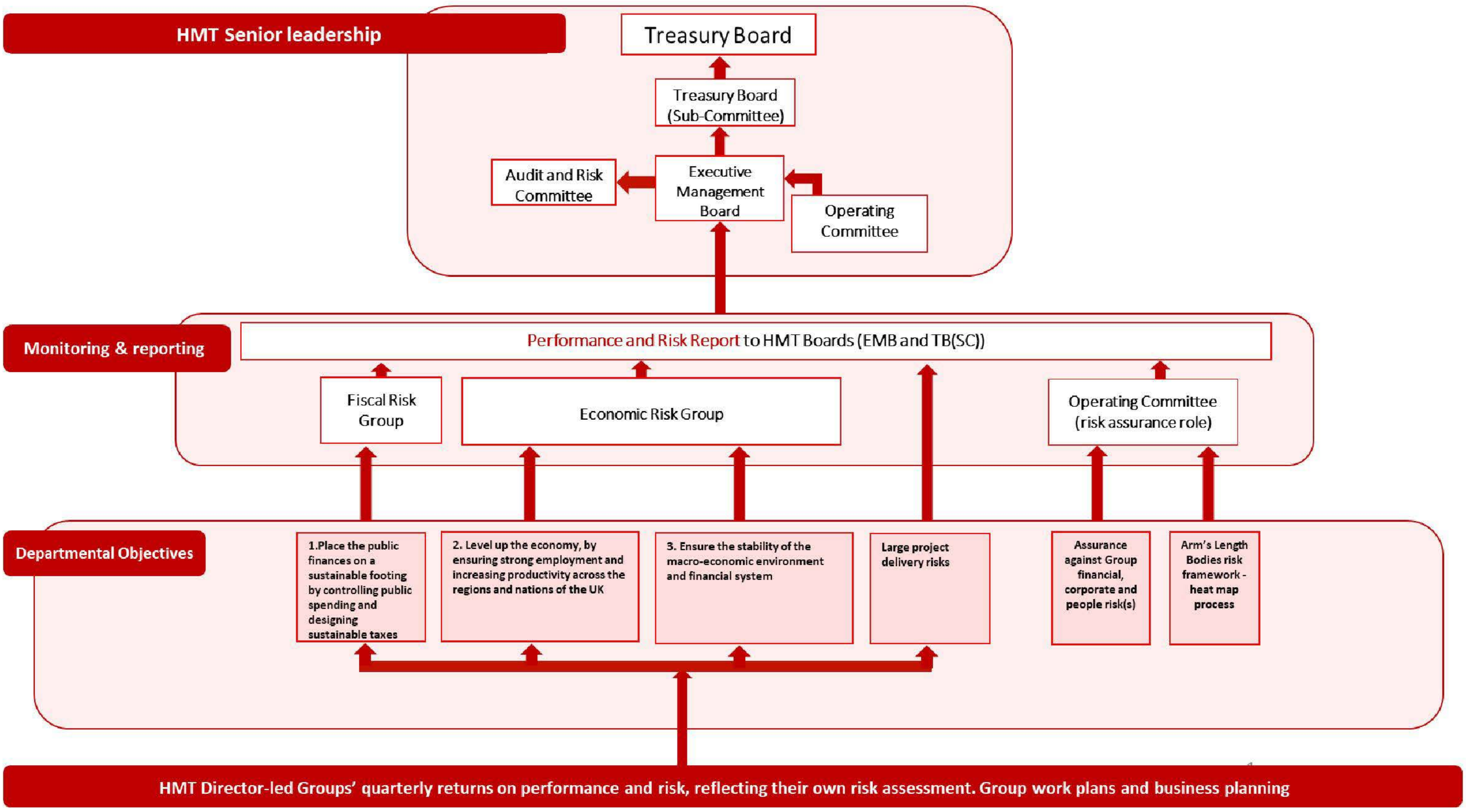
Secretary and any member of EMB can attend OpCo if they have an interest in the item(s) being discussed.

Audit and Risk Committee

28. The Assurance and Risk Committee ("ARC") is a sub-committee of the Treasury Board, chaired by an independent non-executive director. It provides independent scrutiny of and support to the Permanent Secretary as Principal Accounting Officer, and the Treasury's sub-Accounting Officers in their oversight responsibilities on financial reporting, systems of internal control, governance, and managing risk for funds and accounts including Treasury Group's Annual Report and Accounts [CL/001, INQ000068416; CL/002, INQ000068415; CL/003, INQ000068414; CL/004, INQ000068413; CL/005, INQ000068412; CL/006, INQ000068411; CL/007, INQ000068410; CL/008, INQ000068409; CL/009, INQ000068408; CL/010, INQ000068407; CL/011, INQ000068406]. Members of ARC are appointed by the Chair along with the Principal Accounting Officer.

29. The Committee provides independent challenge and the evidence to deliver the assurance needed by the Board and Departmental Accounting Officers. It provides oversight of activity performed by the National Audit Office ("NAO") and the Government Internal Audit Agency ("GIAA") and approves both the external and internal audit plans for the year.

Figure 1: Overview of HM Treasury management structures



Overview of HM Treasury's approach to risk management

30. HM Treasury's risk management framework is informed by principles set out in 'The Orange Book' [CL/012, URN INQ000068436]. This guidance establishes the concept of risk management and provides a basic introduction to the concepts, development, and implementation of risk management processes in government organisations.

31. Risks from across the department were brought together in the Quarterly Performance and Risk Report ("QPRR"), by both the EMB and TB(SC) every three months. The aim of the QPRR was, and is, to review the risks to the department's performance and delivery against its priority outcomes, by bringing the full set of Treasury's risks into one place for senior leadership to consider and carefully scrutinise plans that fall outside of agreed risk appetite. The report provides an assessment of the impact of reported risks to Treasury objectives, states where risks are owned, and provides a view on how the risks are prioritised and managed or mitigated.

32. Since the summer of 2021, HM Treasury has strengthened its risk reporting by focussing on risk appetite. Building on the Orange Book, Treasury Groups have been provided with 'risk categories' – Policy, Delivery, Financial, Legal, Reputation, People, and Operations and Culture - with specific appetites set for each type of risk. This has improved the consistency of risk reporting across the organisation and drives decision making on mitigations, by focusing senior attention on risks that exceed our appetite.

33. Risks identified from across HM Treasury are included within the QPRR. This includes risks raised by specific risk management groups, including the Economic Risk Group ("ERG") and Fiscal Risk Group ("FRG"), as well as operational risks raised at OpCo. Further detail on the role of the ERG and FRG is covered in paras 45-59 and 75-90 below.

34. HM Treasury brings diversity of thought into its policy making by seeking input from external experts. Additionally, EMB hold regular strategy sessions to bring together diverse areas of complex policy to support strategic decision making.

35. Resources across HM Treasury are allocated based on departmental priorities as part of an annual business planning process. Business planning is intended to enable the department to respond appropriately to changes and challenges that impact its staffing needs. EMB make final decisions on resource allocation.

36. A flexible cross-HM Treasury resource pool is maintained to provide rapid support to the highest priority areas of work across the department. It is designed to help deliver HM Treasury's strategic priorities and was implemented as a recommendation from the White Review, as described below.

37. An overview of HM Treasury's Internal Controls/Risk Management Framework is included in the Annual Reports and Accounts.

Global Financial Crisis 2008/09: The White Review

38. Following calls from the National Audit Office ("NAO") and the Public Accounts Committee ("PAC") to conduct an exercise on lessons learnt from the 2008/09 financial crisis, the then Permanent Secretary to the Treasury, Sir Nicholas Macpherson, commissioned a review into the Department's management of the 2008/09 financial crisis in October 2011.

39. The Review Team, led by Sharon White (a former Director General at the Ministry of Justice and later Director General Public Spending and Second Permanent Secretary), published the Review of HM Treasury's Management Response to the Financial Crisis (the "White Review") in March 2012 [CL/013, INQ000068431]. Recommendations from the Review, alongside those of the Department's 2010 Strategic Review [CL/014, INQ000088137], laid the foundations for a significant set of structural reforms to assist operational preparedness.

40. The key recommendations in the White Review included that HM Treasury:

    a. strengthens its contingency planning by ensuring that people on standby to work on the crisis ('reservists') are properly trained, have clear roles and operate within a clear management structure;

    b. retains the requisite skills and experience needed to manage interventions in the banking sector through better career progression;

    c. sets out its medium-term role in relation to financial services regulation, markets and stability and ensures it has the capabilities required to fulfil it;

    d. develops a more structured programme to support staff to develop and maintain expertise through training, interchange with the Bank of England ("BoE") and other financial institutions;

    e. strengthens its relationship with the Bank by clarifying respective roles and responsibilities and introducing more joint working and planning at senior levels;

    f. develops a strategy to manage its turnover rate and sets an annual turnover target of 15 to 20 per cent;

    g. places greater emphasis on experience, expertise, and people management in its promotion and reward policies, including greater use of pay flexibilities and allowance;

    h. improves knowledge management through better recognition and reward for staff and learning from best practice elsewhere;

i. improves risk management by seeking constructive challenge and scrutiny from outside experts;

j. improves staff succession planning, supported by longer handovers between posts; and

k. creates a more enabling environment to challenge policy orthodoxy, by involving outside experts more routinely in policy debates and recruiting staff from more diverse backgrounds.

41. The full set of recommendations were worked through by 2014. There were 56 recommendations in total. Of those:

a. 46 Recommendations were accepted and completed;

b. 8 Recommendations were partially accepted and completed; and

c. 2 were rejected. The 2 recommendations which were rejected were:

i. Reintroduce MBA funding: HM Treasury rejected this citing that more suitable training can be better found by other routes including Economics MScs, relevant Bank/Financial Services Authority ("FSA") training, and Association of Chartered Certified Accountants ("ACCA")/Chartered Institute of Public Finance and Accountancy ("CIPFA") training. HM Treasury continues to support learning and development opportunities for staff.

ii. Organisational risk: consider amalgamating Fiscal and Economic Risk Groups. A terms of reference and participant list were drawn up for the Risk Groups and they now collaborate more systematically via the Strategy, Planning and Budget ("SPB") performance management process.

42. These recommendations and the action taken by HM Treasury in response to them allowed HM Treasury to act in a nimble and responsive way to new and fast changing priorities, including the Covid-19 pandemic.

43. HM Treasury continues to ensure risk management frameworks are reviewed regularly, to ensure HM Treasury's organisational needs are met.

44. Further details of HM Treasury's approach to improving financial stability risk management following the 2008/09 financial crisis are covered at paras 105-113 below.

HM Treasury's role in monitoring risks to the economy

Overview

45. Economic risk management forms an integral part of HM Treasury's governance, leadership, and activities. In the run-up to the pandemic, HM Treasury's risk management framework, in relation to risks to the economy, was underpinned by the ERG and FRG.

46. The ERG and FRG secretariats co-ordinated risk management across groups to ensure that interactions between risks to the macroeconomic outlook, financial systems, and public finances were considered in the round. The standing memberships of ERG and FRG included common attendees to ensure that the interactions between economic, financial stability and fiscal risks received sufficient scrutiny.

47. HM Treasury also jointly chaired the Global Economic Analysis and Risk Group ("GEARG") with the Foreign, Commonwealth and Development Office ("FCDO").

48. It should be noted that the uncertain nature of economic shocks makes developing specific granular response plans for every possible contingency ahead of time difficult; these would need continuous updates and may not be directly applicable to the shocks that emerge.

Economic Risks Group

49. The ERG was established in 2010, following the 2008 financial crisis, to provide a regular senior-led forum to discuss HM Treasury's assessment of a wide range of risks to the economy and financial system through joint working between the Economics and the Financial Stability Groups. During the period covered by this statement, the ERG was chaired by Director Economics Group, with a co-owner, the Director for Financial Stability

Group. To note, ERG is a cross-HM Treasury governance board whereas Economics Group is a division within HM Treasury.

50. The ERG was supported by a secretariat based in the Economics, Financial Stability, Financial Services, and Enterprise and Growth groups. While the Economic Risk Group's role was to support the EMB in managing the department's risks, EMB and Directors remained formally accountable for risk management at departmental and group level, respectively.

51. As per the Terms of Reference [CL/015, INQ000088160], ERG convened every 6-12 weeks, with the overriding objective to scrutinise trends and explore medium-term risks facing the UK's economy, markets, and institutions, as well as providing a forum for exchange and challenge.

52. To increase capacity for risk monitoring within the department's Economics Group, the 'Economic Risks' team was established in late 2018 with responsibility for understanding and responding to key acute economic risks identified by the department. These responsibilities previously sat within the Macroeconomic Strategy and Coordination team; the new Economic Risks team was established to focus solely on economic risks. This new team led and coordinated economic analysis of impacts to the UK economy should specific risks crystallise. The scope of risks covered was shaped by external developments and trends in data. In each instance, the team assessed the economic channels through which any effects might be felt, the potential magnitude of any shock, and the likelihood of the economic risks. This was done using the latest data available, alongside internal and external analysis.

53. Prior to the Covid-19 pandemic, HM Treasury produced a weekly 'macro-monitor', which was shared across HM Treasury and with other government departments. This conjuncture pack contained a list of macroeconomic indicators with the most recent available data, accompanied by a factual summary of this data. Data was sourced from the Office for National Statistics ("ONS"), the BoE, and other published data sources. Additional briefs were produced by teams across HM Treasury for each data source. Economics Group also produced regular updates for the Chancellor and EMB on the state of the economy. These updates elaborated on data updates by including HM Treasury analysis and interpretation of the data. Similar notes were provided to the Prime Minister, with less frequency.

54. A ‘State of the Economy’ presentation was also delivered to officials across HM Treasury (excluding ministers), covering the latest updates on the economy including domestic, international, and financial markets. These presentations were delivered approximately every six weeks, to coincide with Monetary Policy Committee meetings, and were chaired by the Chief Economic Adviser.

Fiscal Risks Group and the Office for Budget Responsibility

Fiscal Risks Group

55. HM Treasury’s objectives for fiscal policy are to ensure sustainable public finances, economic growth and stability, value for money for the taxpayer, a strong balance sheet, and intergenerational fairness. To support these fiscal policy objectives, HM Treasury significantly enhanced its capacity to identify and manage fiscal risks by establishing the FRG [CL/016, INQ000088157] in the mid-2000s. The group is chaired by the Director of Fiscal Group and typically met on a monthly basis in the period up to 2020.

56. FRG reports to EMB on the most important risks to the fiscal position and actions being taken to manage these risks, contributing to the department’s risk management framework, and helping EMB and senior managers to act where appropriate.

57. FRG’s approach to managing fiscal risks follows a five-stage process, modelled on international best practice. This is to: (i) identify the source, scale and likelihood of the risk; (ii) disclose the risk to raise awareness and ensure accountability; (iii) mitigate the risk where cost-effective and consistent with broader policy objectives; (iv) provision for risks that cannot be mitigated but whose size and timing are relatively certain; and (v) accommodate residual risks when setting the overall fiscal policy stance.

58. This approach is underpinned by the principles outlined in HM Treasury’s ‘Orange Book’. This includes processes that support the maintenance of risk registers, regular reporting to governance forums, and regular discussion of the organisation’s mitigation strategies. FRG discussions also included deep dives on emerging fiscal risks, as well as longstanding fiscal sustainability challenges, such as social care and the transition to Net Zero. While FRG did not discuss the fiscal risks stemming from a pandemic, its discussions ensured that the principle to ‘accommodate residual risks’ was reflected in the government’s fiscal strategy.

59. The Fiscal Statistics and Policy ("FSP") team in Fiscal Group were responsible for identifying and monitoring risks to the public finances through FRG. In 2017, a new 'Fiscal Risks' branch was established within FSP to support HM Treasury's increased engagement with the Office for Budget Responsibility ("OBR") on assessing fiscal risks. The OBR published its first Fiscal Risks Report ("FRR") in 2017 [CL/017, INQ000068429], as described in more detail in the section below. The government published its response in 2018 [CL/018, INQ000068419], co-ordinated by the Fiscal Risks branch, with input from FRG. The biennial pattern of the OBR's risk reports, followed by a government response the next year, continued throughout the pandemic until FRR 2021.

Office for Budget Responsibility

60. HM Treasury's internal fiscal risk management framework was supported by the OBR, the government's official independent economic and fiscal forecaster. It is the OBR's duty to examine and report on the sustainability of the public finances, as set out in the Budget Responsibility and National Audit Act 2011. This duty directly feeds into the Treasury's fiscal objective to deliver sound and sustainable public finances.

61. The requirement for the OBR to produce a regular report focused on fiscal risks, as set out in the Charter for Budget Responsibility, was introduced in response to the recommendations included in the 2015 'HM Treasury Review of the Office for Budget Responsibility' [CL/019, INQ000068423], led by Sir Dave Ramsden, former Chief Economic Adviser to HM Treasury. The government commissioned the OBR to "produce a fiscal risks statement setting out the main risks to the public finances, including macroeconomic risks and specific fiscal risks".

62. The Fiscal Risks Report ("FRR") has made a major contribution to the FRG's assessment of risks to the UK's public finances and HM Treasury's wider risk management systems. The purpose of the report is to identify shocks or pressures that could push the public finances away from the OBR's latest medium-term forecast or threaten fiscal sustainability over the longer term. The International Monetary Fund ("IMF") recognised that the FRR "raises the bar on the assessment and quantification of fiscal risks to a new level that other countries should look to meet".

63. Although these risk reports include references to a "relatively high likelihood and potential impact" of a pandemic influenza outbreak, it was not included as a fiscal risk on the OBR's risk register. While the OBR did not consider the economic and fiscal consequences of a global pandemic, one of the main lessons from the reports was that "the public finances

need to be managed prudently during more favourable times to ensure that when these shocks do crystallise, they do not put the public finances onto an unsustainable path".

64. This lesson underpinned the government's fiscal strategy and HM Treasury's approach to internal risk management, as ensuring that the public finances remained on a sustainable path meant that the government would be able to respond as future risks crystallised. This approach was reflected in the government's response to FRR 2017, which outlined that one of the government's five principles for managing fiscal risks was to "accommodate those risks whose size or timing is too uncertain to explicitly provision for in advance. For example, the 2018 Spring Statement fiscal forecast [CL/020, INQ000068432] showed that the government retained significant headroom against its 2020-21 deficit and debt targets in recognition of unknown pressures that it may face over the next three years".

65. It is worth noting that different health and economic risks demand different policy responses, based upon the nature of the risk and the prevailing context. The uncertain nature of both means that the development of specific and detailed response plans ahead of time for all possible contingencies – in this instance, to the economic and fiscal consequences of a global pandemic – would be impossible given the available resources across the department. Such plans would need continuous updates as circumstances evolve and may not in practice be directly applicable when a specific risk (or risks) crystallise.

Global Economic Analysis and Risk Group

66. As an open economy, the UK is affected by wider issues and trends in the global economy. The risks around global economic developments are reviewed regularly through the range of multilateral meetings that HM Treasury participates in, along with other Finance Ministries and Central Banks, the G7, G20, IMF, World Bank and OECD meetings. In discussing possible responses to shared global challenges, we have often advocated for cooperation across fiscal, monetary, regulatory, and other policy responses to mitigate global economic impacts and disruptions to global trade where possible. One of International Group's roles is to assess risks to the UK and international economy.

67. HM Treasury is joint chair (with FCDO) of the quarterly Global Economic Analysis and Risk Group ("GEARG"), which aims to improve coordination on country and cross-cutting international macro-economic analysis among key departments, helping to develop a

shared view on risks and opportunities. The core members of the Group are HM Treasury, the BoE, FCDO, Cabinet Office ("CO"), Department for International Trade ("DIT"), and Department for Business, Energy and Industrial Strategy ("BEIS"), with other departments invited as needed. Joint leadership of and participation in the GEARG informs risk assessments within HM Treasury, and the department's wider international engagement.

68. The GEARG seeks to discuss, share and challenge key pieces of analysis on international economic issues; to identify opportunities for, and to commission, joint analytical work for discussion; to discuss and agree global economic risks to the UK, and identify where and how UK action could manage or mitigate those risks; and to provide analytical support, where needed, for senior officials across government working on international economic policy issues. This included consideration of cross-cutting global economic issues and risks (including health risks such as Ebola); global economic issues prominent on the G7/G20 agenda; developments, risks, and opportunities in systemically important countries; and developments and opportunities in geopolitically important countries.

69. HM Treasury contributes papers and products as both co-chair and a member, including the Global Economic Risk Monitor ("GERM") - analysis produced biannually jointly by HM Treasury and FCDO, with input from analysts across government and the BoE, that maps out the top global economic risks. HM Treasury shares the secretariat responsibilities with FCDO.

Economic data monitoring and civil emergencies

70. As was the case prior to the pandemic, HM Treasury draws on a range of processes and methodologies to assess the economic effects of civil emergencies, often mixing quantitative and qualitative approaches.

71. Monitoring official statistics is the best way to understand the economy as they provide quality assured data of a high standard. When official statistics are unavailable, alternative sources of data are studied to better understand potential economic impacts. For instance, during the pandemic, the department made use of Google's publicly available mobility data. HM Treasury also uses international data and lessons learnt from global partners, as well as guidance from academia, to aid understanding of the impacts of civil emergencies.

72. HM Treasury has relied on a wide range of data sources for the purposes of monitoring and analysing the outlook for the UK economy. The data used by HM Treasury is largely derived from the ONS and BoE but is complemented by other sources of survey data where necessary. HM Treasury has long been an important user of ONS statistics and has maintained a close stakeholder relationship with them. This has helped the ONS to better understand user priorities.

73. Prior to the Covid-19 pandemic, HM Treasury produced a weekly 'macro-monitor', which was shared across HM Treasury and other government departments. This monitoring product contained a list of macroeconomic indicators, with the most recent available data, accompanied by a summary of this data.

74. Data was sourced from the ONS, the BoE and a variety of other published sources. Additional briefs were produced by HM Treasury on each individual data source, focused on the content of the latest releases. The teams that were responsible for data releases of key macroeconomic variables (for example, GDP) also provided a summary paragraph to the Chancellor, the day before data release, on what was expected, followed by a headline brief immediately after publication, and a full brief after this.

Economic and fiscal risk management – pandemic 'lessons learned'

Economic risk management changes

75. HM Treasury was agile in how it managed economic risks during the pandemic. For example, the frequency of ERGs was increased, and the agenda was reduced to two items (a discussion on latest developments and a 'deep dive' on one topic), to enable more regular and in-depth discussions on risks to the economy and financial stability.

76. Alongside this, regular monitoring of the economy and public finances was stepped up. Update packs, detailing the latest developments on the economy, markets and public finances, were sent to the Chancellor, EMB and other government department daily. Economics Group also fed macroeconomic data into the CO's data dashboards, through which regular updates were sent to the Prime Minister. From Spring 2021, these daily updates were replaced by a weekly update pack (that replaced the weekly macro-monitor) and was distributed to the EMB, Chancellor and Prime Minister.

77. Within Economics Group, the Economic Risks team set up a new horizon scanning workstream in 2021 to more systematically monitor and assess economic and non-economic risks to the economy. This included creating the Economics Group Risk Monitor ("EGRM") to consider a wide range of acute, event-driven risks and, later, chronic risks that could have high economic impacts for the UK macroeconomy, with the potential to crystallise within a five-year horizon. The EGRM reflects risks in the National Risk Register and draws on the expertise of relevant teams across government, with the Economic Risks team focusing on the economic impacts of particular risks. The Economic Risks team also feeds into the assessment process of risks on the National Risk Register, providing expertise and guidance on assessing potential economic impacts.

78. For each of the top risks, the team leads economic analysis of impacts to the UK economy. In conducting this analysis, the team identifies the different economic channels through which the effects of the risk might be felt and considers the potential magnitude of the associated shock. Working closely with leads across the department, and externally if needed, the team assesses the likelihood of the economic risks crystallising and feeds this back into the EGRM process. This is done using the latest data available, alongside internal and external analysis.

79. In each ERG, the EGRM is presented with updated trackers on the likelihood and severity of acute and chronic risks. The ERG reflects on the developments in economic risks and considers whether further detailed assessment of impacts may be needed. The conclusions of the ERG are then fed into the wider HM Treasury risk management framework through minutes and a presentation being sent to EMB.

Fiscal risk management changes

80. In early 2021, the FRG secretariat conducted a review of the processes for monitoring and escalating fiscal risks. This review resulted in the introduction of the FRG sub-group in March 2021. The sub-group meets on a monthly basis and is chaired by the Deputy Director of Fiscal Statistics and Policy ("FSP").

81. The sub-group focuses on in-depth examinations of tax, spending, and balance sheet risk registers, which set out the main fiscal risks facing the government. These risk registers are used to identify new and emerging risks, providing assurance that risks are being appropriately monitored across HM Treasury.

82. The sub-group's membership includes risk experts, including members of the ERG secretariat, the QPRR risk reporting team, the government risk profession, and policy leads. This enhances scrutiny of the fiscal risks the government faces by facilitating expert discussion, challenge, and horizon scanning on fiscal risks.

83. FRG meetings moved to a quarterly basis, with a renewed focus on deep dives from key risk areas. This ensured more in-depth scrutiny of priority risks, to better inform policy development through fiscal risk related steers and the commissioning of further risk analysis, when required.

84. Beyond the work of FRG, HM Treasury stepped up economic and fiscal monitoring during the pandemic to ensure that ministers and the EMB were well informed of the fiscal picture. Actions included creating the economy and public finances conjuncture pack which updated ministers on a range of metrics as well as fiscal and economic risks on a first daily and then weekly basis, feeding the fiscal perspective into frequent PM-Chancellor economy meetings, and enhanced arrangements for cash management and monitoring financing risks including with concrete action like Ways and Means. Alongside this, the OBR produced early fiscal scenarios to inform decision-making.

OBR fiscal risk management

85. The OBR published its third Fiscal Risks Report in July 2021 [CL/021, INQ000068430]. This report moved away from the "encyclopaedic approach" taken in previous reports, which had identified more than 90 different fiscal risks. The new approach focused on "three sources of potentially very large fiscal risks: the coronavirus pandemic, climate change, and the cost of public debt".

86. On internal fiscal HM Treasury risk management, the OBR stated that, although the exact timing of shocks cannot be known, "it is possible to anticipate their broad effects if they do." The report concluded that the world is becoming a riskier place and identified a range of top risks. The Economics Group's horizon scanning workstream had already started systematising the group's approach to risk management processes and were considering the potential implications of a range of exogenous shocks – including some of the specific risks mentioned in the OBR's report. To remain joined up, the Fiscal Risks team agreed to introduce a fiscal element to the horizon scanning workstream and a list of example risks.

87. The OBR concluded ten lessons for understanding fiscal risks, with the final lessons stating that "in the absence of perfect foresight, fiscal space may be the single most valuable risk

management tool". This was consistent with the lessons from the previous risks reports that underpinned HM Treasury's fiscal risk management principles, including to "accommodate those risks whose size or timing is too uncertain to explicitly provision for in advance".

88. In autumn 2021, the government updated the Charter for Budget Responsibility [CL/022, INQ000068417] to require the OBR to "produce an annual sustainability report in accordance with the act. This report will analyse the sustainability of the public finances and the risks thereto." The move to an annual sustainability report will further strengthen the independent risk monitoring provided by the OBR by recognising the interplay between fiscal risks and sustainability. This enabled the OBR to combine the biennial Fiscal Sustainability Report and FRR into a single annual Fiscal Risks and Sustainability ("FRS") Report and take a more flexible approach to determining its content.

<u>ERG / FRG interaction with wider HM Treasury risk management processes</u>

89. ERG and FRG have continued to work closely together through regular meetings to discuss agendas in respective sessions and to join up on relevant policy work. The standing memberships of ERG and FRG have continued to include common attendees to ensure economic and fiscal risks are sufficiently assessed by both groups. When scanning the horizon for risks in the near to medium-term, policy leads work together to identify the biggest economic and fiscal risks to the economy and public finances and consider any compounding impacts. Such collaboration has culminated in joint presentations on the risks outlook to EMB.

90. The frequency of ERGs has returned to once every eight weeks on average, maintaining focus on tracking macroeconomic and financial indicators and covering one detailed deep dive. The ERG cast list has evolved since 2020 to explicitly include a longer-list of non-core attendees from the Fiscal, Financial Stability, and International Groups as well as the QPRR Team.

HM Treasury's role in overseeing financial stability risk management

91. HM Treasury has overall responsibility for the UK financial stability framework and works with the regulators to prepare for and respond to risks appropriately. It also has responsibility for managing the provision and withdrawal of public support for the financial

services sector. This includes effective stewardship of the government's interests in UK financial institutions that have received public support, including managing the government's exit from those positions. Further details on how HM Treasury fulfils this role and works with others to do so is set out below.

HM Treasury's Financial Stability Group

92. HM Treasury's Financial Stability Group ("FinStab") is responsible for identifying emerging risks to the financial stability of the UK and the global financial system and preparing and responding appropriately. It identifies and prepares for structural challenges facing the financial sector, analyses medium-term financial stability risks, and monitors, alongside the BoE, risks to the stability of UK firms and financial markets. The group also has responsibility for building up the financial sector's ability to respond to cyber and operational risks. Alongside this, FinStab supports HM Treasury's broader responsibility for setting and maintaining the overall legislative framework for financial regulation.

93. Consistent with the institutional framework established in the Financial Services Act 2012 and elaborated in the Memorandum of Understanding on Resolution Planning and Financial Crisis Management ("crisis management MoU") [CL/023, INQ000068421], FinStab leads on HM Treasury's response to financial crises and contains HM Treasury's Contingency Planning Unit ("CPU"). CPU leads HM Treasury's contingency planning for financial stability risks and is responsible for managing its response to those risks. It also develops and maintains HM Treasury's hub of expertise on contingency planning for risks to financial stability.

94. Additional functions include developing and maintaining the UK's resolution framework, which the BoE implements as the UK's resolution authority (established under the Banking Act 2009 and subsequent legislation). It also has responsibility for managing the financial sector assets acquired as a result of the 2008/09 Global Financial Crisis.

95. FinStab also manages HM Treasury's responsibilities for the macroprudential framework, including HM Treasury's engagement with the BoE's Financial Policy Committee ("FPC"), established under the Bank of England Act 1998. FinStab also supports senior HM Treasury officials in international engagement on financial stability issues, including with the Financial Stability Board ("FSB").

How FinStab monitors financial risks

System-wide

96. FinStab have a standing analytical function that assesses and monitors system-wide financial stability risks. It reports on key risks to HM Treasury's EMB and FinStab are also a part of the Economic Risk Group process, of which, Director FinStab is a co-owner and FinStab staff co-lead the secretariat for the Economic Risks Group. ERG is convened every 6-12 weeks, with the overriding objective to scrutinise trends and explore medium-term risks facing the UK economy, markets, and institutions, with FinStab providing a particularly focused perspective on the latter two.

97. The ERG secretariat has maintained a large dashboard of financial indicators at working level since 2017. The secretariat began consistently reporting on a suite of these RAG-rated macro-financial indicators (covering credit market, market functioning and financial sector resilience) to the ERG from June 2020, reflecting the areas of heightened market monitoring by the Financial Stability Group. The indicators are kept under regular review and the set-up is updated as needed.

98. The Group also coordinate the bi-monthly Risk to Firms Board, thereby ensuring that the Director of Financial Stability and the Deputy Director of the Resilience and Resolution team (the team in FinStab responsible for contingency planning and operational resilience) have a clear sense of financial stability risks.

Risks to firms

99. CPU monitors, through engagement with Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") supervisors, the performance of and any risks to the stability of UK firms. It monitors risks to firms via calls with the supervisors of major UK firms, certain mid-tier firms, and building societies. HM Treasury are updated on their analysis of the firms' quarterly results, and any other relevant information pertaining to the firms' performance or future plans. If there is a worsening outlook for firms, this is escalated to the QPRR on a no names basis. This work complements the BoE's annual stress test of major UK banks, which measures the resilience of banks against hypothetical adverse scenarios. An overview of the performance of the banking sector and firms on the BoE's watchlist of at-risk firms is provided to ministers c. every six months. Where a firm is subject to specific contingency planning, calls are held more frequently, with readouts shared to at least Director level (and sometimes to Director General and Permanent Secretary level), depending on the severity of the risk and the systemic importance of the firm. Ministers

are provided with regular updates on the firm's situation, particularly, around key trigger points. Further information on the CPU can be found in Annex C.

Operational risk

100. The Financial Stability Group' Resilience Unit ("RU") engages with the financial authorities and a range of UK Government departments to monitor, assess, and mitigate operational risks to the UK's financial system. As lead government department for the resilience of the finance sector, HM Treasury represents the finance sector in cross-government planning and exercising forums on national risks, including those listed on the National Risk Register and its classified version, the National Security Risk Assessment. The NSRA is a classified cross-government and scientifically rigorous assessment of the most serious risks facing the UK or its interests overseas. The NSRA is used to frame and coordinate risk management programmes across government. The Resilience Directorate, which is part of the Cabinet Office, is responsible for the forward risk planning once led by CCS and is responsible for co-ordinating across HM Government on cross-cutting risks.

101. The RU, working with other Financial Stability Group teams and Economics Group, developed scenarios for HM Treasury's risks on the NSRA, assessing the likelihood and impact of each risk. Working with the PRA and FCA, the Resilience Unit uses the wider NSRA to contingency plan for national level risks that may impact the functioning of the UK financial system.

102. The RU works with the other financial authorities to ensure that HM Treasury has the tools and capability to manage operational risk to finance sector firms. This includes maintaining and exercising the Authorities' Response Framework ("ARF"). The ARF is a well-understood tool used by the financial authorities to respond to operational incidents. It enables the financial authorities to share information and agree action in relation to incidents, especially at short notice, by providing a commonly understood framework and ways of working among the authorities. The ARF is exercised annually. The RU also ensures that HM Treasury's interest in the security and operational resilience of the sector is reflected in other aspects of government's work, reflecting the regulators' expertise as needed. More detail on the remit of RU can be found in Annex C.

103. The sector and Financial Authorities' response to operational disruption is exercised regularly. Significant cross-authority exercises take place on a two-yearly basis. In 2006, a sector-wide exercise was held and the scenario was pandemic flu.

104. The 2006 Market Wide Exercise resulted in a number of lessons identified for the sector and the Financial Authorities [CL/024, INQ000088161; CL/025, INQ000088168; CL/026, INQ000088169; CL/027, INQ000147811; CL/028, INQ000088170; CL/029, INQ000088171]. Broadly, these lessons related to cash distribution, the operation of financial market infrastructure, international coordination, regulatory forbearance, home working and outsourcing. For the Financial Authorities in particular, lessons were identified relating to HR policy, communications, contingency sites and IT support. A public progress report was published in 2008, 'UK Financial Sector: Market Wide Pandemic Exercise 2006 Progress Report' [CL/030, INQ000088162]. The Financial Authorities also published an overview of the financial sector's planning for pandemic flu [CL/031, INQ000088164].

FinStab's evolution since the 2008 Global Financial Crisis

105. After the 2008/09 financial crisis, HM Treasury led a programme of legislative and regulatory reform to ensure that risks and challenges that might threaten the financial stability of the UK are identified and monitored by HM Treasury, the BoE and the FCA. Further details on how HM Treasury fulfils this role and works with others to do so are set out below.

106. Following the 2012 White Review of HM Treasury's management response to the financial crisis, FinStab established a programme of work aimed at improving HM Treasury's approach to financial crisis management and ensuring that HM Treasury are ready to effectively respond to future financial stability events. This has included developing; clear structures and functions for both business as usual and crisis teams, mechanisms to horizon scan and monitor risks (for example, via the FPC and ERG), and robust relationships with the BoE (including a secondment programme).

107. FinStab has also introduced a suite of legislation to improve its ability to manage the resolution of both banks and certain non-banks in an orderly manner. It has introduced legislation to further develop the resolution regime for banks, notably through the introduction of the bail-in stabilisation option to the Banking Act 2009. The resolution regime for banks was also updated in 2014, following the UK's transposition of the Bank Recovery and Resolution Directive. Beyond banking institutions, a resolution regime for central counterparties was introduced to the Banking Act 2009, with additional legislation, to expand the regime, currently before Parliament in the Financial Services and Markets Bill. The same Bill also makes some targeted enhancements to insolvency arrangements

for insurers, and the government's consultation on this policy (May 2021) outlined the UK's intentions to develop proposals for an insurer resolution regime. A Special Administration Regime has also been introduced for Payments and E-Money institutions.

108. The BoE's FPC is established under Part 1A of the Bank of England Act 1998. Its role is to identify, monitor and take action to address systemic risks to UK financial stability. Since 2014, in addition to its regular risk monitoring work, the FPC has carried out horizon scans across a wide range of non-bank activities and markets, within and outside the regulatory perimeter, to spot changes in and emerging risks to UK financial stability. The FPC is able to make recommendations to HM Treasury where it believes changes to the regulatory framework are necessary to achieve its objectives and HM Treasury has legislated to ensure that the FPC has the tools it needs to address systemic risks (for example, in the residential and buy-to-let mortgage markets). The FPC complements pre-existing Tripartite arrangements (the Tripartite was a term used in relation to the financial authorities prior to the regulatory system being reformed in the Financial Services Act 2012 and comprised HM Treasury, BoE and the Financial Services Authority) and HM Treasury's non-voting membership of the Committee has further strengthened coordination between HM Treasury and the BoE. Further detail on HM Treasury's engagement with the FPC is set out below.

109. In addition, under its Professionalising Crisis Management ("PCM") project, FinStab have developed a suite of manuals and resources to support the deployment of tools in a crisis and mitigate any risks of diminishing experience. Regular training and exercising are conducted to maintain familiarity with the resources and processes and build resilience across the Group.

110. FinStab holds and maintains a Reserve list, which is regularly refreshed. The list contains details of officials who have skills or experience in financial crisis management and the UK resolution regime, as well as the whole of the Financial Stability Group who would be the initial surge resource in a crisis. FinStab also holds details of key contacts in other government departments, and in the financial regulators, who could be engaged in the event of a crisis.

111. Regular training for reservists is conducted, including 6-monthly 'war-game' exercises simulating a crisis response situation. For more details on FinStab's crisis readiness exercising, please see Annex C.

112. In addition to FinStab's Reserve list, a flexible cross-HM Treasury resource is maintained to provide rapid support to the highest priority areas of work across the department. It is designed to help deliver the Treasury's strategic priorities. This team sits in SPB and the allocation of this flexible resource is reviewed on a quarterly basis. The department may also move staff temporarily across Groups via the Priority Projects Locum Scheme, where staff sign up to undertake temporary projects across the department. As of 2022, HM Treasury is continuing to develop its approach to flexible resourcing, particularly in response to crisis situations. A new 'surge model' will be rolled out in 2023, aiming to help support the department for crises beyond those in financial stability.

113. Although resources are constantly evolving as HM Treasury learns lessons from each financial sector incident, ahead of the pandemic internal resources included:

a. A manual and step plans outlining the actions that HM Treasury (as well as the other financial authorities) would need to take in the event of a bank failure;

b. A manual aiming to provide guidance on developing public communications in a crisis or heightened contingency planning event;

c. Manuals on monitoring firm risks;

d. Manuals on operationalising and resourcing response teams;

e. Analysis papers on resolution tools; and

f. Record keeping on all incidents requiring an ARF response.

Tools to respond to market-wide disruption

114. HM Treasury have a robust toolkit that allows it and the financial regulators to effectively respond to market-wide operational disruption to the finance sector, as well as financial firm failures. The Financial Stability Group has tried and tested response frameworks that have been used to respond to incidents arising in the financial sector. These include operational, financial and systemic 'emergencies'.

115. HM Treasury's response to incidents or threats that could cause a major disruption to financial services has followed the pre-agreed procedures set out in the Authorities' Response Framework. This protocol was invoked during the Covid-19 response.

116. Additionally, HM Treasury have defined processes that shape our response to firm failures (or near firm failures) that could pose a risk to financial stability. HM Treasury's responsibilities in response to these incidents, as well as the BoE's, are set out in the MoU on resolution planning and financial crisis management.

117. In the case of severe market-wide operational disruption to the finance sector (e.g. due to a significant cyber incident), government (including the regulators), financial institutions, and Financial Market Infrastructures have powers available to them to respond to the incident.

118. Regulators, the BoE (including the PRA), the FCA, and the Payment Systems Regulator ("PSR") have statutory powers to respond to disruption. Financial Market Infrastructures ("FMIs"), such as central counterparties ("CCPs"), central securities depositories ("CSDs"), and payment and settlement systems, also have a range of powers in their rules and/or legal agreements with their members that enable them to respond to major operational disruption. These include powers to amend contracts; suspend trading, clearing or settlement; close the infrastructure; and suspend participants.

119. Separately, the UK has developed a resolution framework that provides the financial authorities with powers to manage the failure of financial institutions in a way that maintains financial stability and access to critical services, while limiting the risks to public funds in the event of a financial shock. The BoE is the UK's resolution authority, responsible for developing resolution plans for firms within the framework and executing a resolution as required. Resolution powers for banks are primarily contained within the Banking Act 2009 and are supported by a crisis MoU between the BoE and HM Treasury, which publicly sets out the respective responsibilities of each authority in resolution planning, policy, and execution. The resolution regime for other financial institutions is currently being developed (e.g. for central counterparties in the current Financial Services and Markets Bill). Further details on HM Treasury's interaction with the BoE can be found in Annex C.

120. If the conditions for resolution are met, the BoE has a number of tools which it can use to resolve the firm in an orderly way. These include bail-in, partial transfer, and a bridge

bank. The Special Resolution Regime Code of Practice (Banking Act 2009) provides details on the regime.

121. Where those conditions are not met, a firm is placed into the bank (or building society) insolvency procedure. This procedure provides for the orderly winding up of a failed firm, accompanied by Financial Services Compensation Scheme ("FSCS") pay-outs to eligible depositors or a transfer of such accounts to another financial institution.

122. HM Treasury works closely with experts in the financial regulators during a crisis to analyse potential risks and impacts on firms and markets. The coordination arrangements include requirements for the BoE to provide information to HM Treasury to support the discharge of its functions.

Financial Policy Committee

123. Part 1A of the Bank of England Act 1998 established the Financial Policy Committee, the UK's macroprudential authority. It is responsible for identifying, monitoring and taking action to reduce systemic risks to improve the resilience of the UK financial system such that it has capacity to support the real economy in the medium to long term. It has a secondary objective to support the government's economic policy. However, the Committee is independent of government. HM Treasury is responsible for appointing external members to the Committee and maintaining and updating the FPC's statutory powers where necessary.

124. HM Treasury may at any time, by notice in writing, make recommendations to the Committee about matters it should have regard to, and the Committee's responsibilities in relation to both its primary (financial stability) objective and its secondary objective. At least once per calendar year, the Chancellor is required to issue such recommendations and state what the government's economic policy should be taken to be. This is set out in his annual remit and recommendations letter to the Committee. The FPC are required to publicly respond to these recommendations.

125. HM Treasury is represented in a non-voting capacity on the Committee. Gwyneth Nurse (Director General for Financial Services) currently acts as HM Treasury's non-voting member, succeeding Charles Roxburgh (former Second Permanent Secretary) who represented HM Treasury from 2013 until April 2022. This representation ensures that the

Committee can appropriately consider the views of HM Treasury (in particular, in relation to its secondary objective to support the government's economic policy) whilst maintaining the Committee's independence.

126. Twice per year, the FPC publish a Financial Stability Report ("FSR"), which sets out the FPC's view on the stability of the UK financial system and what it is doing to remove or reduce any risks to it. Following its publication, the Governor and the Chancellor are required to discuss the FSR. The FSR is also laid in Parliament by HM Treasury and FPC members appear before the Treasury Select Committee following its publication.

127. The FPC's regular risk monitoring and horizon scanning work is supported by the FCA and PRA. The BoE also carry out an annual stress-testing exercise to assess major UK banks' resilience. The stress applied is not a forecast of macroeconomic and financial conditions in the UK. Rather, it is a coherent 'tail risk' scenario designed to be severe and broad enough to assess the resilience of UK banks to a range of adverse shocks.

128. The IMF's Financial Sector Assessment Program ("FSAP") provides in-depth assessments of a country's financial sector. It concluded its most recent review of the UK financial sector in February 2022 [CL/032, INQ000068405] and judged that the FPC was a "world-class macroprudential authority".

Financial Stability pandemic risk management – processes in practice

129. The ERG secretariat has maintained a large dashboard of financial indicators at working level since 2017. The secretariat began consistently reporting on a suite of these RAG-rated macro-financial indicators (covering credit market, market functioning and financial sector resilience indicators) to the ERG Group from June 2020, reflecting the areas of heightened market monitoring by the Financial Stability Group. The indicators are kept under regular review and the set-up is updated as needed, for example, in June 2021 updates were made to include new debt and asset price indicators A combination of in-depth analysis on specific areas and regular monitoring on developments in financial markets supported HM Treasury's assessment of financial stability risks associated with the pandemic.

130. At the on-set of the pandemic, the Financial Stability Group's Contingency Planning Unit ("CPU") began heightened monitoring of the performance of and any risks to the

stability of UK firms, working closely with the financial regulators. Identified risks and a forward look of work were discussed by Deputy Directors and the Financial Stability Director at weekly seniors' boards, set up in April 2020. A 6-weekly Risk to Firms board was also established in March 2020, to inform Deputy Directors and Directors across the Financial Stability and Financial Services Groups of sector-wide risks. HM Treasury seniors and ministers were provided with regular updates on the risks.

131. CPU set up new workstreams to monitor the impacts of the pandemic on the sector and undertook contingency planning for the risk of firm failures, including the possibility of multiple concurrent failures, engaging closely with the financial regulators. In practice, no significant firm failures arose as a result of the pandemic.

132. FinStab used scenario planning for pandemic flu carried out in previous years [CL/033, INQ000088163] to understand finance sector critical national infrastructure ("CNI") organisations' levels of preparedness and tolerance for levels of absenteeism in a crisis. This included the Finance Sector Security and Resilience Plan ("FSSRP"), an annual assessment commissioned by the Cabinet Office, which found that critical finance sector firms had strong levels of resilience to high levels of absenteeism due to remote working arrangements in 2016-17.

133. Finance CNI firms were again asked to assess their levels of preparedness in 2018 and were assessed to have robust arrangements to respond to higher levels of absenteeism. It was also assessed that business continuity plans would enable them to operate with higher absenteeism than the level of absenteeism in the scenario they were tested on (30%). These improvements to sector resilience built on progress made following the Market Wide Exercise in 2006, which had a pandemic flu scenario.

134. In 2018, an update on the sector's preparedness prepared for the Cabinet Office [CL/034, INQ000088172], noted the sector's resilience due to business continuity arrangements, the global nature of the systems, and high tolerance for absenteeism.

135. During the pandemic a cross-authority risk monitoring framework was established to map out key risks to the sector, which reported into the Director-level Authorities' Response Framework Response Group and fed into updates for HM Treasury senior officials and ministers.

136. The Financial Stability Group's Resilience Unit also received weekly firm-specific information from the PRA relating to absenteeism and branch closures. This was used to monitor staffing levels in finance sector critical national infrastructure (CNI) firms. The Cross Market Business Continuity Group (CMBCG), chaired by the Bank, was used as a strategic forum to gather information from key market participants. This included understanding how absenteeism and school closures affected the finance sector.

HM Treasury's spending role, including for civil emergencies

HM Treasury's approach to managing public money

The role of HM Treasury

137. HM Treasury has a constitutional role and is responsible to Parliament for creating and maintaining a framework to manage public resources. This framework is codified in the document Managing Public Money ("MPM") [CL/035, INQ000068420], which sets out how departments and ALBs should meet Parliamentary spending expectations through the Accounting Officer ("AO") system. Parliament looks to HM Treasury to make sure that departments only use their powers as intended, and that revenue is raised and resources are spent within the agreed limits. AOs' key requirement is ensuring that spending conforms to the principles of regularity, propriety, value for money and feasibility.

138. The Treasury performs this role in three ways: by designing the Budgeting Framework (set out in Consolidated Budgeting guidance [CL/036, INQ000068418]); setting departmental budgets through the Spending Review and Estimates processes; and controlling departmental spending on an ongoing basis so that they stay within budgets. HM Treasury's role ensures that Parliament's requirements are met and the delivery of government objectives are supported.

Overview of the Spending Review process

139. HM Treasury sets departmental budgets through the Spending Review ("SR") process. The process for SRs is not defined in law and the scope and length of an SR can vary. For example, SR21 set departmental resource and capital budgets from 2022-23 to 2024-25, whereas SR20 set resource and capital budgets for 2021-22 and SR19 set resource budgets for 2020-21 only. Resource budgets are used on day-to-day expenditure, including pay and procurement, and capital budgets are used for investment (e.g. in rail or

roads) and financial transactions. SR processes are led by the Chancellor of the Exchequer, but typically involve both bilateral negotiations with departments and collective decision making to set the budgets for government priorities.

140. The SR sets departmental budgets for any particular year – as resource and capital budgets. The Secretary of State of each department, on the advice of their officials, is responsible for decisions on allocations within their budget. This will be guided by, amongst other things, their existing commitments, priorities and risks. Each Department sets out to Parliament how it has funded its activities and used its resources during the financial year in its Annual Report and Accounts.

141. As above, SRs are important in setting departmental budgets over a set period of time and their timing can vary significantly. However, the Chancellor must set out the government's overall fiscal policy at least once a year through the Budget. The Budget sets out how much the government is taking in revenue and borrowing set against spending over the SR and post-SR period (up until the forecast horizon set between OBR and HM Treasury, which is currently 2027-28). The Budget is regularly compiled and re-evaluates spend on a periodic basis (once a year).

142. The government can also use the Budget to announce new policies (these policy packages tend to be smaller than those announced at SRs), but baseline spend per department will not be updated. To fund these new policies, a department's budget may need to be adjusted in-year (e.g. via allocations from the Reserve – for more detail on which, see below). For example, a £5bn Covid-19 response fund was announced at Budget 2020 to ensure public services received the funding needed to respond to the pandemic. Any changes made to budgets in-year will usually be allocated at Supplementary Estimates (see more detail below).

143. SRs are the internal process government uses to develop budgets. Supply Estimates are the process through which the government seeks Parliament's authority for its spending plans. Supply Estimates are based on the principle of 'Annuality', meaning that provision voted by Parliament and authorised under the relevant Supply and Appropriation Act is only available to be applied to the financial years (running from 1 April to 31 March) specified in that Act. Any resources, capital or cash authorised in the Supply Estimates but not used by the department at the end of a financial year are no longer authorised for use. HM Treasury pulls together the Estimates from departments (ensuring the budgets being

set out have the necessary approvals from the Chief Secretary) and lays them in Parliament.

144. Scrutiny of individual departmental Estimates is mainly undertaken by departmental select committees. Several of the Estimates will be debated in Parliament. Parliament plays a central role in the Estimates process and expects departments to submit Estimates based upon taut and realistic spending plans. This means that the amount of provision sought in the Estimates must reflect the department's best view as to the amount of expenditure likely to take place in that financial year. The amounts sought in the Estimate should be neither more nor less than is actually expected to be needed. As well as reflecting the department's best view of the amount of provision needed, the Estimate should provide an accurate and detailed breakdown of how that provision is expected to be spent.

145. In terms of timings, there are two annual Supply Estimates: Main Estimates, which set budgets at the beginning of the financial year, and Supplementary Estimates, which adjust for any variation to provide the most taut and realistic estimate for the end of the financial year.

146. HM Treasury delegates authority to departments to enter into commitments and to spend within predefined limits, without specific prior approval from HM Treasury. Delegated authorities may also allow departments to enter into commitments to spend (e.g. contingent liabilities) and to deal with special transactions (such as some write-offs) without prior approval. Delegated authorities strike a balance between HM Treasury's need for control in order to fulfil its responsibilities to Parliament and the department's freedom to manage within its agreed budget limits and Parliamentary provision. Departments should not take general Treasury approval of an Estimate as approval for specific proposals outside delegated limits, even if provision for them is included in the Estimate.

147. Before any expenditure outside the delegated authorities is submitted by the department to HM Treasury for formal approval, it should already have passed the highest level of scrutiny within the department, which as a minimum will require sign-off by the Principal Accounting Officer, Finance Director, or other official with full delegated powers. Expenditure submitted to HM Treasury for approval should also have been signed-off by the relevant minister within the department (excepting cases related to special payments).

148. When looking specifically at policy proposals and projects, any applications for approval should be submitted to the relevant Treasury spending team, who will then communicate in writing whether approval has been granted. Projects outside delegated authority will be scrutinised through the Treasury Approval Point process, or the Major Projects Review Group for government's largest and riskiest projects and programmes.

Funding for civil emergencies

149. Spending reviews generally cover only expenditure which can reasonably be planned in advance. Departments are expected to manage within the budgets they are set at SRs. Where unexpected pressures arise, in the first instance, departments are expected to respond by managing pressures down, deploying contingency from within their own budgets and re-prioritising where possible. Consolidated Budgeting Guidance ("CBG") sets out HM Treasury's expectation that all departments identify 5% of their allocated Departmental Expenditure Limit ("DEL") that could be reprioritised to fund unforeseen pressures. This can be made up of either having a list of contingency plans for how the department could reprioritise resources should it be necessary, by a Departmental Unallocated Provision ("DUP"), or a combination of the two.

150. As part of the SR, HM Treasury sets aside contingency for genuinely unforeseen, unabsorbable and unavoidable pressures. HM Treasury controls how this contingency – called the Reserve – is allocated. There is one Reserve for Resource Departmental Expenditure Limits ("RDEL") and one for Capital Departmental Expenditure Limits ("CDEL"). Resource budgets are used on day-to-day expenditure, including pay and procurement. Capital budgets are used for investment (e.g. in rail or roads) and financial transactions. Access to the Reserve must be agreed by the Chief Secretary to the Treasury ("CST").

151. Consolidated Budgeting Guidance sets out the process that departments should follow if they wish to make a call on the Reserve. If departments believe that they may require support from the Reserve, they need to contact their Treasury spending team as early as possible to discuss any alternative courses of action while there is still time to put them into effect. Department proposals for Reserve access need to set out:

a. The size of the pressure;

b. The cause and why it is unforeseen;

c. Any offsetting actions to manage down the pressure – including cutting costs, cutting inefficiencies, cutting unnecessary programmes and cutting lower priority budgets;

d. The residual pressure; and

e. Corrective actions they mean to take if Reserve access is granted.

152. If discussions conclude with no other alternative course of action identified, departments must submit a formal request with the support of their HM Treasury spending team. Formal applications for Reserve funding should be sent to HM Treasury in the form of a Ministerial letter to the CST. The drawdown of funding from the Reserve is then subject to an assessment of need, realism, and affordability at the time at which funds are released. Where the CST agrees to provide support to a department from the Reserve, the amount may be repayable the following year by means of a reduction in the department's budget.

153. Though departments should always follow the Reserve process set out in CBG where possible, there are occasions where a department's request for access to the Reserve may need to be approved to a much shorter timescale. In such circumstances, HM Treasury can agree to allow the department to access the Reserve in principle without following the standard approval process. These requests will still need Ministerial approval during the Estimates process and funding will only be provided based on the need, realism, and affordability of the claim. HM Treasury relied heavily on this approach during the early stages of the Covid-19 pandemic.

154. Budgets and any associated cash allocated through the Reserve still require voting in Parliament at either Main or Supplementary Estimates for departments to receive access to this additional funding. If departments need to incur urgent expenditure ahead of it being voted in Parliament, they can apply for a Contingencies Fund Advance ("CFA"). A CFA enables HM Treasury to make repayable cash advances to departments for urgent services, in anticipation of provision for those services by Parliament. Set requirements laid out in the Estimates Manual must be met before a CFA can be considered. HM Treasury may authorise issues out of the Fund subject to the limit set on the capital of the Fund by the Contingencies Fund Act 1974. The limit is fixed at 2 percent of the total of authorised Supply expenditure (i.e. the total of all authorised departmental net cash requirements) in the preceding financial year.

155. An out-of-turn Supplementary Estimate may be presented at any time when Parliament is sitting. If sought between the normal Main and Supplementary Estimate rounds, it is because urgent additional provision is needed at short notice, and this cannot await a normal Estimates round or be met through a cash advance from the Contingencies Fund.

156. If sought after the normal Supplementary Estimate round the government would be to provide urgent additional provision to avoid an Excess Vote. An alternative solution could be to use primary legislation to increase the limit set on the capital of the Contingencies Fund, currently set by the Contingencies Fund Act 1974.

157. During the pandemic, the level of the Contingencies Fund was increased using primary legislation in both 2020-21 and 2021-22 to ensure that departments could access cash advances for urgent services in a timely manner. This meant departments could access the necessary cash ahead of formal voting in Parliament at Main or Supplementary Estimates.

158. For 2020-21 the Contingencies Fund Act 2020 increased the percentage to 50% from the usual 2% (from approximately £11bn to £266bn). For 2021-22, the Contingencies Fund Act 2021 increased the percentage to 12% (from approximately £17.5bn to £105bn). In 2022-23 the Contingencies Fund returned to the usual 2% (approximately £15.1bn).

159. There are no special arrangements in place with Cabinet Office for funding civil emergencies, beyond the usual arrangements in place for all urgent and unexpected expenditure through application to the Reserve.

Overview of HM Treasury spending teams

160. HM Treasury has specific teams which lead on overseeing spending policy for specific departments, as well as a central spending coordination team called General Expenditure Policy ("GEP"). HM Treasury has a specific team responsible for engagement with DHSC on health spending and policy, as well as other teams (for example, education, local government and transport) who were involved in the response to the Covid-19 pandemic.

161. Each spending team within HM Treasury is responsible for overseeing the spending policy for their department, for instance advising HM Treasury ministers on departmental

allocations at fiscal events and in-year approvals. Spending teams consist of officials up to Deputy Director level and interact regularly with counterparts in the relevant department. Directors and Directors General will frequently interact with senior counterparts in departments, including the departmental AO.

Meetings with departments

162. Regular meetings take place between HM Treasury and spending departments to discuss the department's key financial issues and financial management information (including financial outturn and forecast data), discuss issues and agree next steps.

163. Spending teams work particularly closely with departments prior to a SR. Departments submit 'bids' to HM Treasury, which are then assessed by spending teams, and worked through between ministers in bilateral negotiations. This process considers the priority outcomes each department is responsible for delivering and the funding required to deliver those outcomes, taking into account the potential for efficiency and savings within each department.

Financial Management

164. In addition to the engagement described above, HM Treasury spending teams provide reporting on their overall financial position to HM Treasury. HM Treasury's spending teams monitor this data throughout the year, engaging with departments on any areas of concern. Where the team consider that action is needed to ensure that a department can live within its budget, advice is provided to HM Treasury ministers on any options requiring their decision.

Spending approvals

165. In line with the principles and rules set out in Managing Public Money and the Consolidated Budgeting Guidance, departments must bring spending proposals to HM Treasury for approval where they exceed set 'Delegated Authority Limits' or are 'novel, contentious, or repercussive'. In practice, this necessitates close working on spending proposals between departments and HM Treasury officials, including detailed scrutiny of policy, and its financial implications.

166. HM Treasury spending officials often work with departmental officials to shape policy in its development stages to ensure that the department can gain the necessary approvals from HM Treasury ministers. The approval of HM Treasury ministers often comes with conditions that departments must follow in order to be allowed to incur the spend. Conditions sometimes include policy specifications to assure HM Treasury that the spend

incurred will maximise value-for-money and meet the principles of the public spending framework.

HM Treasury health spending team

167. As outlined above, one of the spending teams within HM Treasury is responsible for working with DHSC on health budgets and policy. In 2018 this team was responsible for agreeing the 2018 NHS 5-year funding settlement, which was agreed separately from a Spending Review process. Negotiations between HM Treasury, DHSC and NHS England were held to explore delivery priorities and their cost, and options to go further through efficiency. Following the announcement of the funding settlement, the NHS 'Long-Term Plan' was published, which set out the objectives to be delivered using the additional funding and how these objectives would be monitored.

Funding Settlement: 2018

168. The five-year funding settlement for the NHS was agreed between HM Treasury, DHSC, and NHS England in 2018. Meetings were held at both official and Ministerial level, both within government and with the NHS leadership to agree the optimum size of the NHS budgets in the context of broader fiscal constraints, taking account of inflation, the changing size and profile of the population, and the potential for efficiency and productivity gains.

169. On 18 June 2018, the Prime Minister announced the five-year financial settlement, and a table of the revised NHS budgets was published. That settlement allowed for average annual real-terms growth of 3.4% per year over the period, based on the OBR's March 2018 economic forecasts. At the Autumn Budget in 2018, the OBR's forecasts were revised such that the budgets (agreed in nominal terms) represented lower real-terms growth, and the settlement was revised upwards in cash terms to ensure it kept pace with inflation.

170. Following the 2019 election, the government enshrined the settlement in law through the NHS Funding Act 2020. The 2018 settlement and the revised settlement, legislated for in 2020, are as follows:

NHS England RDEL, nominal terms	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**

As announce d in 2018	+114.60bn	+120.55bn	+126.91bn	+133.15bn	+139.83bn	+147.76bn
As legislated for in 2020			+127.01bn	+133.28bn	+139.99bn	+148.47bn

NHS Long-Term Plan

171. The NHS Long-Term Plan was published by NHS England in 2019 and set out their plans to improve services and outcomes using the funding they'd been given. HM Treasury's primary involvement was in agreeing 5 'Financial Tests' with the NHS, which were designed to ensure that taxpayers' money is used as effectively as possible. These are set out in Chapter 6 of the Long-Term Plan, and are:

a. Test 1: The NHS (including providers) will return to financial balance;

b. Test 2: The NHS will achieve cash-releasing productivity growth of at least 1.1% per year;

c. Test 3: The NHS will reduce the growth in demand for care through better integration and prevention;

d. Test 4: The NHS will reduce unjustified variation in performance; and

e. Test 5: The NHS will make better use of capital investment and its existing assets to drive transformation.

Pandemic Preparedness

172. No specific budget for pandemic preparedness and resilience was included in the 2018 NHS settlement because the agreement reached covered the size of NHS England's overall budgets, rather than the detailed breakdown of how that money would be allocated.

173. The 2018 agreement covered only NHS England's budgets and therefore did not cover the pandemic preparedness responsibilities of the Department of Health and Social Care or Public Health England. The Long-Term Plan makes no direct reference to pandemic preparedness, which does not fall under its remit. It nevertheless was, and is, a responsibility of the NHS to assess risks and ensure it has robust mitigation and contingency plans in place – this includes pandemic planning. HM Treasury is not routinely

involved in the internal allocation of funding for such preparations within the NHS, as it would typically fall within the NHS' delegated authorities.

174. As above, primary responsibility for pandemic preparedness, including surveillance, local response, and disease outbreak management, sat with Public Health England ("PHE"), an executive agency of DHSC, which in October 2021 was split into the UK Health Security Agency ("UKHSA") and the Office for Health Improvement and Disparities ("OHID"). Further detail is available below on HM Treasury's engagement with key PHE pandemic preparedness programmes, such as Exercise Cygnus.

Local government spending

175. HM Treasury works closely with departments to set budgets through the Spending Review process. This includes working with the Department for Levelling Up, Housing and Communities ("DLUHC") to agree the local government DEL budget, which is the main source of government grant funding for local authorities in England. The detail of local government funding allocations is then set out by DLUHC through the annual Local Government Finance Settlement. Local authorities are responsible for their own finances within centrally set parameters and budgets. Some funding will be ringfenced for particular activities. The level of funding may vary from year to year to reflect changes in responsibilities placed on local authorities by government. Local authorities also have the power to raise income locally through Council Tax, retained business rates and sales, fees and charges.

176. HM Treasury does not approve local government spending because local authorities are democratically accountable to their local communities. Central government sets the overall level of funding for local government in England through the annual Local Government Finance Settlement, which is approved by Parliament.

Public spending and procurement - pandemic 'lessons learned'

From Spring 2020 to Spring 2021

177. HM Treasury committed to learn lessons throughout the pandemic and since. We evaluated and reflected on our approach at regular intervals to ensure that our processes were constantly adapting and improving to meet the rapidly changing demands of the pandemic. We carefully reviewed our standard processes throughout, making informed judgements on the most effective ways to meet our responsibilities in a flexible way.

178. HM Treasury has also reflected specifically on the way the spending control framework operated during Covid-19, flexibilities that were agreed with Departments, and the process of procuring specific products, including Personal Protective Equipment (PPE), Test and Trace, and Covid-19 vaccines. The conclusions, including lessons learned for future crises, were set out in a letter from the CST to the Chair of the Treasury Committee in April 2021 [CL/037, INQ000068427].

Winter 2021

179. In winter 2021, HM Treasury facilitated a review for the Civil Service Board of the application of the AO processes during the initial phases of Covid-19. This review identified the following lessons:

a. AO assessments are a valuable tool in undertaking a systematic appraisal of specific significant projects or proposals;

b. detailed arrangements for producing AO advice should be tailored to the wider structures of each organisation. However, the Finance Function within each body provides an important second line of defence and should, therefore, sign off an AO assessment before it is put to the AO for final clearance; and

c. AOs and those who support them would benefit from enhanced training and support, as well as more detailed central guidance in specific areas, including the circumstances that merit departments assuming a greater level of risk appetite than they would in usual conditions.

March 2022

180. Following the publication of the government's Living with Covid-19 plan in February 2022, HM Treasury then focussed on implementation, and has:

a. published updated Accounting Officer Assessment guidance [CL/038, INQ000107246] that details better ways of joint working and advice on how to approach accounting officer duties in circumstances of uncertainty. We have also more explicitly linked business cases and accounting officer assessments and strengthened the role of the Finance Function in the authoring of assessments by requiring that such assessments should have Finance director sign off; and

b. published an updated version of Managing Public Money with additions on combating fraud and communication with Parliament regarding Ministerial directions and contingent liabilities.

Promoting better finance capability across government

181. HM Treasury has worked to embed lessons in our own practices and to share these lessons more broadly across government through the work of the Government Finance Function ("GFF").

182. I (Catherine Little), as Head of the GFF, convene a Finance Leadership Group ("FLG"), which meets every month. The agendas include a Treasury update in which the latest information on fiscal events and other Treasury activity with departments is shared. The agendas also include items that require the attention of all government departments and which allow departments to share best practice and common issues and concerns.

183. Previous sessions have covered the following topics.

a. Forecasting - this has led to the creation of an FLG forecasting sub-group tasked with working to improve forecasting accuracy. The group has discussed the impact of Covid-19 on departmental forecasting and is taking forward a project to set expectations around forecasting best practice for finance professionals and budget holders via the Government Finance Function.

b. Risk Management - an FLG risk-management sub-group provide input into the broader government risk management strategy and delivery plan, developed by the Risk Centre of Excellence (which is housed in GFF).

c. Financial Reporting - a joint session was held with FLG and the National Audit Office on timeliness and quality of reporting in Annual Report and Accounts ("ARA") for 2021-22. HM Treasury is hosting forums to identify and resolve issues that may hinder more timely reporting and will cascade relevant guidance as needed. On the content of ARAs, HM Treasury has introduced new mandatory requirements for reports on the impact of the pandemic on departmental goals, strategic objectives and priority outcomes, and a fraud and error analysis of Covid-19 support schemes.

d. Audit and Assurance – The GIAA attended a session on cross-government insights from the 2020-21 assurance work, in particular those related to the Covid-19 response. FLG looked at the outcomes from the cross-government Risk Management review and discussed the impact of Covid on risk tolerance levels.

184. The GFF remains committed to ensuring that the finance community across government has access to adequate guidance and best practice. The GFF maintain a Covid-19 hub on the OneFinance platform, accessible to all government finance staff, that provides the latest advice and guidance in a single place online, including updates that cover Accounting Officer flexibilities, response and recovery risk management, and changes to payment and debt processes.

185. HM Treasury has also prepared a new forecasting framework, which has been shared with departments. This sets out forecasting expectations and incentivises departments to share robust forecasts that enable HM Treasury to monitor public spending effectively and thereby minimise the risk to public finances.

Risk Management

186. The pandemic reinforced the need for continuing improvement in the way the government manages risk. Effectiveness and efficiency improvements being made relate to the design and performance of frameworks and toolkits as well as the individual and collective capabilities of those using them.

187. HM Treasury and CO have been updating the Public Accounts Committee on risk management improvements relating to:

a. Strengthening leadership and enhancing credibility

b. Collaborating across boundaries

c. Enhancing capabilities and driving professionalism

188. As many of our improvements relate to the consideration of riskiness and risk management effectiveness when important decisions are being shaped and taken, the improvements need to be adapted to the governance structures already in place across

government. This means addressing challenges associated with cross-department decisions and responsibilities.

189. Additionally, the government has updated the PAC on the evolution of specific capabilities addressing civil contingency risk:

a. The National Security Risk Assessment (classified)

b. The National Risk Register (public overview based on the NSRA)

c. The National Situation Centre ("SitCen")

Counter-fraud

190. Lessons have been learned in how government manages fraud risk specifically. The Public Sector Fraud Authority was launched in August 2022, with an additional £24.7 million over 3 years to turn the existing Government Counter-Fraud Function into a new Public Sector Fraud Authority. The new Public Sector Fraud Authority ("PFSA") has been established, jointly reporting to HM Treasury and Cabinet Office ministers, to hold departments to account for their counter-fraud performance. The PSFA will also deliver improved data analytics, deliver fraud impact assessments, create 'red teams' and hold central enforcement capability. It is on track to deliver its first-year target of £180m in recognised benefits.

191. HM Treasury has strengthened counter-fraud processes by making Initial Fraud Impact Assessments ("IFIAs") mandatory for any new major area of spend, as set out in Managing Public Money. This assessment provides an indication of potential fraud in a scheme and allows risks to be identified and mitigated early in policy design. When necessary, further scrutiny is provided by the PFSA, which has so far overseen thirteen initial fraud impact assessments and six fraud risk assessments, including the recently announced energy support schemes.

HM Treasury's engagement with pandemic planning, relevant economic analysis of historic flu outbreaks and relevant scientific funding

HM Treasury Involvement in Pandemic Preparedness Exercises

192. As outlined above, HM Treasury does not hold direct responsibility for pandemic preparedness. Prior to the Covid-19 pandemic, pandemic preparedness was led by the Department of Health and Social Care (before 2018, the Department of Health ("DH")), in conjunction with CCS. HM Treasury understands that it would be for these departments to provide a holistic account for the Inquiry of pandemic preparations prior to 2020. The below section however illustrates HM Treasury's involvement in pandemic preparations as far as has been possible with the records available to it.

193. HM Treasury has conducted a search across internal databases for documents potentially relevant to the Rule 9 request, including in relation to HM Treasury's involvement in pandemic preparedness exercises prior to 2020. These searches have been extensive and at times, due to the volume of data, HM Treasury used appropriate search terms to narrow down the documents to be reviewed. HM Treasury's response below is drafted based on the documents it has reviewed. In places, illustrative examples have been provided to show the way in which HM Treasury engaged with pandemic planning prior to 2020. It cannot be discounted, however, that further document discovery and review could require additions or alterations to be made to the statement below.

194. HM Treasury's review of additional documents has identified material relevant to Exercise Winter Willow and Exercise Cygnus, the details of which are set out below. The review has revealed no other information held for the other pandemic preparedness exercises listed within the Rule 9 request submitted to HM Treasury.

Exercise Winter Willow

195. Exercise Winter Willow was a light touch desktop exercise, held in two parts, on 30 January 2007 and from 19 to 20 February 2007. The exercise comprised of two meetings of the Civil Contingency Committee ("CCC"), constructed to emulate a UK alert level 2 virus and level 4 virus at each meeting respectively. In particular, the exercise was designed to consider how various government departments would react to a World Health Organisation ("WHO") Phase 6 announcement (sustained transmission of the virus in the general population).

196. The aim of the exercise was to enhance the UK's ability to manage the effects of an influenza pandemic by practising and validating response policies and the decision-making process at national, regional and local levels.

Documentation concerning Exercise Winter Willow

197. As Exercise Winter Willow was designed to be a ‘soft start’ exercise, various documents were circulated to the participants, including HM Treasury, ahead of the simulated meetings in the form of briefing packs [CL/039, INQ000088111; CL/040, INQ000088118].

198. Additional documents held by HM Treasury in relation to Exercise Winter Willow include situation reports, agendas, minutes for both notional and actual meetings that the CCC had, and many other related documents [CL/041, INQ000088113; CL/042, INQ000088110; CL/043, INQ000088115].

<u>HM Treasury’s contributions to Exercise Winter Willow</u>

199. The implications of a WHO Phase 6 pandemic announcement for HM Treasury is set out in an internal briefing document for the first part of the exercise (alert level 2) [CL/044, INQ000088117]. It was considered that this alert level would not have a direct effect on HM Treasury. Consequently, HM Treasury’s role in the exercise was mainly to support other government departments, including by confirming additional expenditure required and to ensure minimal economic disruption as a result of counter measures.

200. However, the briefing document acknowledged that all government decisions were likely to have economic implications for the UK, and HM Treasury would be required to consider the nature of assistance needed by affected countries and international institutions.

201. HM Treasury’s key interests in the case of a human flu pandemic were identified as the fiscal impact, the economic impact and working in tandem with other government departments to minimise the number of deaths in the UK. Potential economic and fiscal issues that were considered included disruption to supply chains, panic buying, public loss of economic confidence, and the likelihood that expenditure would exceed the currently projected levels due to increased departmental spending.

202. In particular, the exercise considered several areas of policy response within the remit of HM Treasury, including financial assistance to the travel industry and finance (cash circulation, banking and payment systems) [CL/045, INQ000088112]. With respect to the financial sector and overall economy, the exercise foreshadowed some limited disruptions to UK businesses including supply of some raw materials and electronic components from high levels of illness in key trading partners in South-East Asia, as well as limited impact on businesses with key links to USA, France, Germany and Japan.

203. The second phase of Exercise Winter Willow was held over 19 and 20 February 2007 and considered a scenario in which the risk had evolved to alert level 4. A number of HM Treasury staff were involved in the second phase of the exercise in order to deal with queries and provide briefings [CL/046, INQ000128603].

204. The exercise did not consider financial sector resilience as this had been tested during a 6-week long Market Wide exercise which took place the preceding autumn, as set out in paras 103-104. The 2006 Market Wide exercise identified risks in the telecoms sector, particularly in relation to the capacity of the network to support the significant increase in home working that is envisaged during a pandemic, and the degradation of services that might arise due to delays to repair and maintenance. These concerns were fed into planning for Exercise Winter Willow [CL/047, INQ000088109; CL/048, INQ000088108].

Lessons learned from Exercise Winter Willow

205. Ahead of the second phase of the exercise, lessons learned were considered by HM Treasury's Health team [CL/049, INQ000088119]. The initial phase of the exercise underlined the need for:

a. A clearer scientific consensus across government, as considerable time was spent clarifying the science base in both the officials' and ministerial Cabinet Office Briefing Room briefings;

b. Greater thought around the alignment of various cross-government policies, such as the policies around school closures and running public transport as usual; and

c. Further work to be carried out around the arrangements for managing potentially large numbers of excess deaths.

206. Following the second phase of the exercise, the Department of Health produced a 'Lessons Identified' report, with input from HM Treasury, which is publicly available.

207. While no specific learnings for HM Treasury were included in the final report, the Flu Working Group ("MISC 32"), the Cabinet Committee which oversaw and guided UK pandemic flu preparations from 2005, produced an internal document collating lessons

learned from the exercise and suggesting future actions for the corresponding government department to consider [CL/050, INQ000147812; see also CL/051, INQ000088120].

Exercise Cygnus

208. Exercise Cygnus was a command post exercise conducted by PHE between 18 and 30 October 2016 to assess preparedness for an influenza pandemic in the UK. The exercise was designed to recreate the reality of a response involving strategic and tactical level staff [CL/052, INQ000088154].

Documentation concerning Exercise Cygnus

209. HM Treasury is in possession of a number of documents concerning Exercise Cygnus, including the master briefing and various annexes [CL/053, INQ000088149]. The annexes cover matters ahead of the exercise, for example, the objectives of the exercise, the staffing requirements and the participant scene-setting materials [for example, CL/054, INQ000088148].

210. The majority of the remaining relevant material in HM Treasury's possession consists of "injections" into the exercise. These are scenarios that are built into the exercise to assess how different departments react. HM Treasury have exhibited the initial injections setting out the overall scenario by way of example [CL/055, INQ000088151]. HM Treasury is also in possession of meeting agendas and subsequent action points that have been scheduled into the timeline of the exercise [for example, CL/056, INQ000088150].

HM Treasury's contributions to Exercise Cygnus

211. From our review of the documentation relating to Exercise Cygnus, it appears that HM Treasury did not directly contribute to any of the injections into the exercise.

Lessons learned from Exercise Cygnus

212. Following Exercise Cygnus, PHE produced a post-Cygnus report setting out lessons identified in relation to preparedness and response, which is publicly available.

213. While no specific lessons in relation to the function of HM Treasury were included in the report, the exercise showed overall that the UK's capability to respond to a worst-case pandemic influenza should be critically reviewed. Findings from the exercise indicated that the risk of a pandemic requires cross-government planning given the potential impact on every sector. The level of preparedness planning guidance at the relevant time was substantial. However, it was spread across various guidance documents, organisational plans and other less formal arrangements. The exercise identified a need to rationalise the

guidance to aid response management and undertake further work to engage the public and wider stakeholders on preparedness planning arrangements.

214. Shortly after Exercise Cygnus, in February 2017, the National Security Council (Threats, Hazards, Resilience and Contingencies sub-committee) met and reaffirmed the government's commitment to ensuring the UK was prepared to manage the health effects of severe pandemic influenza.

215. In April 2017, the Cross-Government Pandemic Flu Readiness Board ("PFRB") was established in April 2017 to provide oversight for a program to deliver the plans and capabilities to manage the wider consequences of pandemic influenza [CL/057, INQ000088155]. HM Treasury was represented on the Board.

216. During 2017, the PFRB held meetings to discuss, amongst other things, actions to be undertaken arising from Exercise Cygnus, including the preparation of a free-standing draft Bill which could be fast-tracked through Parliament.

217. In January 2018, HM Treasury made a submission to the Chief Secretary regarding legislative measures for Pandemic Flu Preparedness, noting that Exercise Cygnus had identified areas for further work across government [CL/058, INQ000088156]. The submission stated that HM Treasury's focus of pandemic flu preparedness was ensuring that government finances were resilient to the impact of a pandemic on the workforce, noting that workplace absence in the UK could peak at around 30% in a 'Reasonable Worst Case Scenario'. The submission proposed that, in a pandemic flu scenario, a single Lord Commissioner of HM Treasury, or HM Treasury Minister, should be authorised to sign any document required to exercise the functions of HM Treasury. Under normal circumstances, two Commissioners are required to sign any such document.

218. The draft Pandemic Influenza Bill proposed amending the Treasury Instruments (Signature) Act 1849 by way of Clause 11 [CL/059, INQ000088158]. The draft legislation was essential in forming the basis of the Coronavirus Act 2020, with the draft Clause 11 reflected in Section 71 of that Act.

<u>Other HM Treasury engagement in pandemic preparedness</u>

219. The document review process described at para 193 has also indicated that HM Treasury considered planning for a pandemic scenario in other instances, beyond its engagement with the preparedness exercises detailed above.

Swine flu

220. HM Treasury has a number of documents concerning the government's response to swine flu. These include minutes and agendas from cabinet meetings discussing actions to be taken to mitigate the outbreak of swine flu and comparisons to the approach of other countries. HM Treasury is also in possession of documents including a risk assessment carried out by the Scientific Advisory Group for Emergencies ("SAGE") ([CL/060, INQ000088126; CL/061, INQ000088128; CL/062, INQ000147813]).

221. In addition, HM Treasury has notes, reports and discussions reviewing the potential costs that could be associated with the varying degrees of outbreak of swine flu. These cost discussions are mainly on the topics of vaccines, antiviral drugs, antibiotics, facemasks and closures (for example [CL/063, INQ000088130]). Common Recognised Information Pictures ("CRIPs") and HM Treasury reports also show the regular tracking of swine flu cases and address contingency and resolution plans (for example, [CL/064, INQ000088127; CL/065, INQ000088129]).

222. Within HM Treasury's related documents, there is reference to swine flu and the cost considerations of countermeasures. These evaluations are both during the timeline of swine flu and continue after with regards to pandemic influenza more generally. They largely concern the purchase, storage and distribution of a vaccine and other medicines, but also cover wider topics such as DH's cost pressures in 2009/10 from pandemic flu and the implications for DH's non-pandemic policy priorities [CL/066, INQ000088133; CL/067, INQ000088132; CL/068, INQ000088131].

223. Specific DH programmes (including HM Treasury's involvement in these) that also built on lessons learned from swine flu are covered in the section below.

Department of Health pandemic preparedness programmes

224. HM Treasury have discovered documents related to involvement in the DH-led pandemic influenza preparedness programme ("PIPP") and associated programmes ranging from 2006-2017. This documentation largely consists of material prepared by DH in accordance with HM Treasury's spending control process.

225. HM Treasury is in possession of a number of PIPP Procurement Board documents, the majority of which follow the outbreak of swine flu, so are mainly dated in late 2009 or early 2010.

226. It is HM Treasury's understanding that it would be for DHSC to disclose documents to the Inquiry relating to the PIPP. However, a limited number of the documents provide useful context to understand HM Treasury's interaction with the programme. For example, in July 2006, a draft pre-pandemic influenza business case was produced by DH. HM Treasury worked with DH to refine the case over the course of the following months [CL/069, INQ000088107] and a second version was produced in October 2006. Further documents held by HM Treasury indicate that the Economic Secretary to the Treasury was regularly briefed on the progress with respect to the Pandemic Flu Business case, including in relation to masks, antibiotics, antivirals, other drugs, and a pre-pandemic vaccine (see for example [CL/070, INQ000088116; CL/071, INQ000088121; CL/072, INQ000088122; CL/073, INQ000088123]).

227. The Economic Secretary to the Treasury attended a Flu Working Group ("MISC") meeting on 7 June 2006. At the time of this meeting, manufacturers had advised that, once a pandemic virus was confirmed, it would take around 5 months before a specific vaccine could be produced, and a full year before sufficient supplies would be available to vaccinate the entire UK population [CL/074, INQ000088106]. Consequently, it was decided that HM Treasury would work with the Department of Health and the Office for Science and Innovation on a business case and cost-benefit analysis of the development of a pre-pandemic vaccine.

228. In 2008, DH sent a submission to HM Treasury seeking approval for the Flu Programme Outline Business Case. DH set out proposed contentious measures in order to minimise the outbreak of flu pandemic through pre-pandemic vaccine and facemasks [CL/075, INQ000088124]. The programme was approved in July 2008 for the stockpiling of clinical countermeasures against a possible human pandemic flu [CL/076, INQ000088125].

229. Of particular significance to the assessment of HM Treasury's involvement in these programmes are documents detailing HM Treasury's analysis and response to such requests for funding. For example, in 2010 the DH submitted an Outline Business Case ("OBC") relating to a proposal for the procurement of Advance Purchase Agreements ("APA") for Pandemic Specific Vaccine to HM Treasury for approval. The OBC noted experience from swine flu indicated without an APA the UK's ability to secure sufficient vaccine stock in the case of a pandemic was compromised. In September 2010, and then again in March 2012, HM Treasury approved the spending request for the APA, which

could ensure supply in the case of a flu pandemic for the following 10 years. [CL/077, INQ000088136 & CL/078, INQ000088143]. Another example, [CL/079, INQ000088141] aptly demonstrates HM Treasury's position in relation to PIPP capital expenditure.

230. In January 2012, HM Treasury conditionally approved the spending request for Managed Contract Centre Services. The project proposed to establish longer term arrangements for call centre services to support the National Pandemic Flu Service. DH intended to enter into a framework agreement with four suppliers for the provision of call centre services in the event of a health-related emergency, with pandemic flu detailed as an example of such an emergency [CL/080, INQ000088139].

231. In March 2012, HM Treasury approved the spending request for the Dynamic Purchasing System for antibiotics to ensure that the UK had adequate supplies in the event of a pandemic. DH's proposal was for a four-year procurement system to stockpile antibiotics as a precautionary approach to treat patients who developed a secondary bacterial infection to a pandemic flu. The approval was on the condition that DH absorbed additional contract costs into its existing baseline for the purposes of future spending review settlements [CL/081, INQ000088167 & CL/082, INQ000088142].

232. Another aspect of HM Treasury's engagement with these DH programmes was the approval of delegated spending authorities. Following the 2010 Spending Review, HM Treasury provided a revised set of delegated spending authorities for DH in May 2011, effective from the 2011-2012 financial year and onwards [CL/083, INQ000088138]. One of these spending areas was the UK Pandemic Flu Programme, with a delegated spending limit of £50 million. The delegated authority did not apply to contracts with sleeping clauses or flexibilities and decisions over planned population coverage. In 2013, this same delegated authority was re-approved for 2014/15 [CL/084, INQ000088144].

233. Alongside the more specific projects that DH requested funding for, HM Treasury have also discovered documents that detail the forecasted spend more generally on pandemic flu countermeasures. This includes the projected costs from 2008 up to and including 2018 on items such as facemasks, consumables and antibiotics [CL/085, INQ000128605].

234. HM Treasury has also located documents in relation to the procurement of antiviral flu medicine in 2016/17. DH held a stockpile of Tamiflu, an antiviral medicine for use in the event of a flu pandemic. A significant proportion of this stockpile was due to expire in

2016/17 so a decision was required about whether to procure replacement stock. This was approved by HM Treasury in 2016 [CL/086, INQ000088146].

PHE Science Hub

235. Another key project related to pandemic preparedness was the development of the PHE "Science Hub". In 2014, PHE proposed the creation of the Science Health Hub, consolidating existing high containment laboratories to a single site at Harlow. PHE submitted that a significant investment would be required to retain existing capabilities and allow it to continue to deliver its objectives, including protecting the public from infectious diseases such as Ebola and leading the UK's response to a pandemic.

236. After receipt of the request from the Secretary of State for Health in or around December 2014, HM Treasury rejected the proposal until further work had been completed with respect to workforce and commercial planning [CL/087, INQ000088153]. On 16 December 2015, the Chancellor wrote to the Secretary of State for Health confirming approval of the Outline Business Case, subject to a number of conditions [CL/088, INQ000088147]. Following further input from HM Treasury, investment into the new facility was announced by the Chancellor on 17 September 2016 [CL/089, INQ000088152].

237. Since 2016 the Science Hub programme has made progress, purchasing a site for development of the new facilities in Harlow in 2017. However, it has faced delays as delivery options have been reviewed and high containment laboratories continue to be delivered from facilities at the UKHSA site at Porton Down. During the pandemic, Porton Down facilities played a key role in testing new variants and vaccines and new laboratories were built to support the continued response to Covid-19. PHE/UKHSA have received capital funding both for maintenance of existing facilities and for continued development of the Science Hub.

Economic analysis for previous flu outbreaks

238. HM Treasury has routinely considered the impact of emerging risks to the economic outlook. This included the emergence of the H5N1 strain of avian influenza and the H1N1 strain of flu in 2006 and 2009, respectively.

239. When these risks emerged, HM Treasury undertook analysis to understand the impact of a pandemic flu scenario [CL/090, INQ000128604]. This economic analysis used existing

evidence and literature to gauge the potential scale of the impact of a pandemic. HM Treasury's analyses looked primarily at demand and supply-side impacts, including the impact on GDP, the output gap, inflation, and the public finances. Key uncertainties identified in these analyses included: the severity of the pandemic (i.e. severity of illness); the proportion of the workforce affected; the amount of time individuals might be affected by the virus; and the behavioral response of consumers. Given these uncertainties, it was noted that analysis of the economic impact would be subject to a high degree of uncertainty.

240. In 2006, HM Treasury produced internal analysis on the impact of a future human flu pandemic on the economy [CL/091, INQ000088159]. It acknowledged economists' increasing interest in infectious diseases and the existence of H5N1 ('bird flu') - noting, however, that human infections remained rare and that the virus had largely not been spreading from person to person. The analysis covered the key epidemiological factors that had sparked concern amongst scientific experts regarding the likelihood of a human pandemic and economic evidence from previous flu pandemics.

241. HM Treasury also conducted specific scenario testing for a swine flu pandemic in 2009 [CL/092, INQ000088134]. This analysed the economic and public finance impacts of a swine flu pandemic in the UK, occurring over six months in the last quarter of the year. This was an economic analysis that focused primarily on the impact on the economy and not all wider policy implications. A pandemic flu scenario was perceived as a negative shock to the economy with both supply and demand side effects in the short-run and a permanent effect on supply. Again, estimates of economic impacts were made under the assumption that fiscal policy remained unchanged.

242. Whilst HM Treasury routinely considered the impact of emerging risks to the economic outlook, it did not plan a specific response for the event of a global pandemic. As previously outlined (see paragraphs 65 and 239), the uncertain nature and transmission of economic and health shocks means that any policy response would need to be tailored to the specific shock that occurs, as well as the economic context in which the shock occurs. Any specific plans for a global pandemic would need continuous updates as circumstances evolve over time and may not be directly applicable in practice when such risks crystallise. HM Treasury's economic analysis for previous flu outbreaks did not, therefore, form a blueprint for a specific, planned economic response to the impacts of a global pandemic – although the analysis did help provide an analytical framework through which HM Treasury could

rapidly assess, based on very limited scientific and economic data, the potential impacts of the Covid-19 pandemic as it emerged in early 2020.

243. Although, as outlined above, HM Treasury did not have a specific economic response 'playbook' in place for a global pandemic, in several instances the swift deployment by HM Treasury of economic policy interventions during the Covid-19 pandemic was assisted by previous experience responding to economic and/or financial shocks. HM Treasury has a variety of policy levers it can use to respond to an emerging economic risk, including changes to fiscal policy (taxation and public spending) and potential regulatory or legislative amendments (for example, in relation to the financial services industry). These policy levers can be utilised at pace during different types of economic and health shocks, and a combination of these levers were used during the Covid-19 pandemic. HM Treasury understand that the use of these policy levers during the economic response to the pandemic will be the subject of a future module.

Relevant scientific funding

244. In July 2017, HM Treasury approved £195m to support the "leading edge healthcare" R&D challenge, funded through the Industrial Strategy Challenge Fund (a BEIS programme). This included a new vaccines manufacturing centre. It is not clear to what extent pandemic preparedness/the resilience of the health system underpinned this proposal.

245. In November 2019, HM Treasury supported the Government Office for Science to conduct and publish "Realising our ambition through science; A review of Government Science Capability", which made recommendations on how departments can better utilise science to achieve policy objectives and ensure that they are resilient to shocks and emergencies. This included obligations on departments and Chief Scientific Advisors ("CSAs") to set clear and transparent research objectives, linked to departmental policy objectives, showing how R&D budgets reflect these priorities and to increase engagement with external research institutes and international partners.

246. Following the report's publication, £2 million funding was subsequently committed to the Government Chief Scientific Adviser to expand cross-cutting strategic science capabilities and £1.4 billion over 10 years in the animal health science infrastructure at

Weybridge, enhancing the UK's science capability whilst protecting the nation from the increasing threats of current and emerging animal diseases.

247. The Government Office for Science is a Government Agency funded through BEIS and is responsible for ensuring that government policy and decisions taken by the Prime Minister and Cabinet are informed by the best available scientific evidence. This includes chairing the cross-government network of CSAs and leading the Scientific Advisory Group for Emergencies structure, which supports government to prepare for and respond to emergencies or risks. The Director General for the Enterprise and Growth Unit also serves as HM Treasury's CSA. The role of HM Treasury's CSA is to ensure that ministers in the department receive good quality scientific advice. HM Treasury's CSA is a member of the cross-government CSA network.

Operation of HM Treasury's risk assessment and management functions upon the onset of Covid-19 (Dec 2019 – 21 Jan 2020)

248. The risk management structures detailed in this statement were in place to allow HM Treasury to respond flexibly and quickly to emerging risks. As referenced above, for risks outside of core HM Treasury lead responsibilities, we participate in the response by invitation from lead departments or the Cabinet Office when our input and expertise is relevant to the risks being considered. This was the case when the Covid-19 virus emerged in Wuhan, China in late 2019.

249. Searches of HM Treasury records undertaken to date have indicated that the first official engagement by HM Treasury took place on 24 January 2020 – a date outside the scope of the timeframe set for Module 1 of the Inquiry. It should be noted by the Inquiry that the findings of HM Treasury to date do not preclude HM Treasury engagement on the response to Covid-19 prior to 24 January 2020 and that such engagement may become apparent upon conducting further searches of our documentary records.

250. On that date, COBR met to discuss Covid-19. The Chancellor, the Rt. Hon Sajid Javid MP, was out of the country but requested an update. The HM Treasury health spending team contacted DHSC for an update.

251. The update stated that at the meeting the Chief Medical Officer ("CMO") had advised that the risk to the UK population was presently low, with moderate risk to UK travellers to

affected areas. However, some healthcare workers in Wuhan had been infected (though none had yet died); and sustained human-to-human transmission may be occurring. SAGE was keeping the situation under constant review and would reassess the position if there was either sustained transmission in a country other than China, or a severe case in the UK.

252. HM Treasury's EMB first discussed Covid-19 at the meeting on 17 February 2020. This was in relation to the developing FCDO travel advice. Further meetings of EMB included discussions on the emergence of Covid-19 took place on 2 and 9 March, with daily discussions from 16 March.

253. HM Treasury's role in the emerging Covid-19 pandemic beyond 21 January 2020 will be covered in Module 2 of the Inquiry.

Statement of Truth

I believe that the facts stated in this witness statement are true.

Signed.. **Personal Data** ....

Dated.........19/04/23..

Annex A – HM Treasury Organogram 2010 - 2019

254. HM Treasury have completed the below organogram of senior officials (Director and above), based on the historical organisational records (the Annual Reports and Accounts) from the period 2010 - 2019. That ARA record of senior officials excluded the period September 2015 to September 2018. Gaps in this record have been filled wherever possible by institutional memory. Individual role holders, where known, have been included in chronological order. The period beyond 2019 is not covered in this organogram.

255. It should be noted that the structure and roles of HM Treasury senior officials have changed consistently over the time period covered in this organogram. Where job titles have changed but the job content remained broadly the same, we have included in the same row.

Job Title and Grade	Name	Job/Team function
Permanent Secretary	Nicholas Macpherson Thomas Scholar	Responsible for decision making, Coordination and Management of the Department and Communications with media and the public.
Second Permanent Secretary	Thomas Scholar Sharon White John Kingman Charles Roxburgh	Responsible for growth policy, financial services and infrastructure.
Director General and Chief Economic Adviser to the Treasury/ Director General, Macroeconomic and Fiscal Policy	Dave Ramsden Clare Lombardelli	Responsible for economic and fiscal policy advice, analysis and surveillance. Also head of Government Economic service - leadership of the economic profession across government, working closely with other heads of profession, in particular for social research.
Director, Macroeconomic Policy / Director - Economics	Robert Woods Vanessa MacDougall	Responsible for UK Economic analysis, surveillance, and professionalism
Director, Fiscal Policy	Sam Beckett James Richardson Richard Hughes	Responsible for Fiscal Policy Framework and Statistics and Debt, Cash, and Reserves Management
Director - Economic Projects	Robert Woods Clare Roberts	Responsible for Economic Projects.
Director, Debt Management Office	Robert Stheeman	Chief Executive.
Director General, Budget Tax and Welfare	Edward Troup Indra Morris Beth Russell	Responsible for Tax and Welfare.

Director, Personal Tax and Welfare Reform (Director, Personal Tax, and Welfare and Pensions group)	Indra Morris Beth Russell Lindsey Whyte	Responsible for Personal Tax, Welfare, Labour Market and HMRC/DWP Expenditure, Pensions and Savings.
Director, Business and Indirect Tax	Mike Williams	Responsible for Corporation Tax, Capital Gains Tax, Value Added Tax, other consumption taxes and duties, International Tax and Environmental taxes.
Director, Budget and Tax / Strategy Planning and Budget	Mark Bowman James Bowler Claire Lombardelli Daniel York-Smith	Responsible for defining forward strategy, work programme, the budget, tax strategy and short-term priority policy projects
Director - Customs	Susan Catchpole	Responsible for customs.
Director General, Public Spending / Director General, Public services and Growth	Andrew Hudson Sharon White Julian Kelly James Bowler	Responsible for the Treasury's work on Public services with overall responsibility for managing public spending, strengthening financial discipline across central government, helping to ensure the delivery of more cost effective public services, and contributing to creating the conditions for sustainable growth whilst supporting development in infrastructure and a low carbon economy.
Director, Financial Management and Reporting	Ken Beeton Lindsey Fussell	Responsible to strengthen and embed good governance, financial management, reporting and assurance across central government, in order to enhance the cost effectiveness of public service delivery.
Director, Public Spending	James Richardson Julian Kelly David Allen Victoria Rock Conrad Smewing	Responsible for Spending Control, Pay and Pensions.
Director, Enterprise and Growth	Peter Schofield Jeremy Pocklington Susan Acland-Hood Philip Duffy	Responsible for Expenditure and Policy on Growth-Related Services and Business.
Director, Public Services and Environment	Chris Martin Helen Bailey Tamara Finkelstein Lindsey Fussel Catherine Frances William Garton Catherine Frances Jean-Christophe Gray	Responsible for Oversight of Major Public Service Expenditure.
Director General, Financial Services and Stability	Jonathan Taylor Charles Roxburgh Katherine Braddick	Responsible for oversight of Strategy in the financial services groups.

Director, Financial Stability	Lowri Khan Mridul Hegde Lowri Khan	Responsible to monitor, contingency plan and intervene were necessary in situations of financial stability; and to manage the legacy of the financial sector interventions the Government has already undertaken.
Director, Financial Regulation and Markets	Nikhil Rathi	Responsible for Financial Service Regulatory Framework and Financial Markets Policy Issues
Director, Financial Services	Alison Cottrell Katherine Braddick Richard Knox Gwyneth Nurse	Responsible for Policy with Respect to Financial Services
Secretary, Independent Commission on Banking	Sam Woods	Responsible for running the full-time team supporting the work of the commission.
Director LIBOR Tendering	Bill Dickinson	Responsible for LIBOR Tendering Committee.
Director General International and Finance	Michael Ellam Jonathan Taylor/Stephen Pickford Mark Bowman	Responsible for International and EU.
Director, International	Nicholas Joicey Shona Riach Veda Poon Matthew Taylor	Responsible for International Finance.
Director - EU Exit	David Lunn	Responsible for, International and EU.
Director - International and EU	Stephen Field	Responsible for, International and EU.
Director, IMF and World Bank	Alex Gibbs Stephen Field	The UK Executive Director at the IMF and World Bank.
Director - Office of Financial Sanctions Implementation	Rena Lalgie	Responsible for, Office of Financial Sanctions Implementation.
Director, International and Macroeconomics	Creon Butler	Senior adviser on international and macroeconomics to the IF directorate.
Director - European Analysis and Head of Global Economics Director – International Economics	Robert Woods	Responsible for EU analysis and head of Global Economics. Responsible for International economics and head of Global Economics.
Group Director, Finance and Commercial	Julian Kelly Kirstin Baker Anna Caffyn	Responsible for Finance.
Director, Director of Corporate Services	Emma Lindsell Alison Cottrell Katherine Green	Responsible for HR and Corporate Change Management.
Director - Operations	Catherine Webb	Responsible for, Corporate Centre Operations.

Director, Group Director of Finance and Procurement	Louise Tulett	Leads on the Finance and Procurement work of the Corporate Services directorate, including Treasury Group finance, commercial, legal and internal audit.
Chief Executive, Infrastructure UK	Geoffrey Spence	Responsible for Infrastructure strategy and delivery, and public private partnerships.
Director, Performance and Impact Unit	Felicity Harvey	Leads the work of the PIU which aims to help government deliver better and more cost-effective services for citizens within the context of the new transparency framework.
Director General, Performance and Impact Unit	Ray Shostak	Leads the work of the PIU which aims to help government deliver better and more cost-effective services for citizens within the context of the new transparency framework.

Annex B – HM Treasury Priority Outcomes

256. At the end of the time period investigated in Module 1 of the UK Covid-19 Public Inquiry, the Priority Outcomes, or strategic objectives, set by HM Treasury ministers were to:

a. Place the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services;

b. Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU;

c. Increase employment and productivity, ensuring strong growth and competitiveness across all regions of the UK, through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU; and

d. Build a great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence.

257. These objectives are underpinned by cross-cutting work to support the Chancellor in delivering an annual fiscal event (the Budget) and represent the department's priority outcomes as part of embedding the Public Value Framework.

258. Further detail about how this is achieved is included in HM Treasury's 2019 Single Departmental Plan [CL/093, INQ000068424]. This document has since been superseded by a new 2021 version called the Outcome Delivery Plan [CL/094, INQ000068422], which sets out HM Treasury's overall expected outcomes and how the work of the department, including fiscal events and new legislation, will contribute towards delivering those outcomes. HM Treasury's roles and responsibilities are set out in our Outcome Delivery Plan and the Annual Report and Accounts.

259. The areas of policy the HM Treasury lead include tax, financial services, financial stability, economic crime, tariffs, customs and macroeconomic policy. HM Treasury is also responsible for financial sanctions implementation.

260. As HM Treasury is at the centre of government, much of our policy is delivered with specific partners. To achieve our Priority Outcomes (set out above), HM Treasury works closely with the following partners:

a. For Priority Outcome 1: *Place the public finances on a sustainable footing by controlling public spending and designing sustainable taxes:*

   i. Debt Management Office

   ii. National Savings & Investment

   iii. UK Government Investments

   iv. Office for Budget Responsibility

   v. Government Internal Audit Agency

   vi. HM Revenue and Customs

   vii. Bank of England

b. For Priority Outcome 2: *Level up the economy, ensuring strong employment and increase productivity across the regions and nations of the UK:*

i. National Infrastructure Commission

ii. UK Infrastructure Bank

iii. Department for Levelling Up, Housing and Communities

iv. Department for Transport

v. Department for Work and Pensions

vi. Department for Business, Energy and Industrial Strategy

vii. Department for Education

viii. Financial Conduct Authority

ix. Bank of England

c. For Priority Outcome 3: *Ensure the stability of the macro-economic environment and financial system:*

i. Bank of England

ii. Office for Budget Responsibility

iii. Financial Policy Committee

iv. Trade Remedies Authority

v. The International Monetary Fund

vi. The World Bank

vii. Other government departments, including: Foreign, Commonwealth and Development Office; and Department for International Trade, Department for Health and Social Care.

261. There is also a Policy Partnership between HM Treasury and HMRC providing detail about how competences are split in relation to tax policy making and the effective functioning of the tax system.

Annex C - Additional detail of HM Treasury's approach to financial stability risk management

Resilience Unit

262. HM Treasury is lead government department with responsibility for operational resilience in the finance sector. Operational resilience is important to the UK's financial stability. As such, the Resilience Unit ("RU") sits within HM Treasury's Financial Stability Group. The RU works together with the other UK financial authorities, HM Government partners and industry to drive improvements in the operational resilience of the sector. The RU is also responsible for coordinating the financial authorities' response to operational disruption within the finance sector. When serious incidents occur in the finance sector, the RU work at pace to manage the response.

263. As lead government department for the operational resilience of the finance sector, HM Treasury's RU represents the finance sector in cross-government planning and exercising on national risks, including those listed on the National Risk Register ("NRR") and its classified version, the National Security Risk Assessment ("NSRA"). This covers all sectors. The risks are used by departments to articulate the risk landscape, develop plans and mitigations, and strengthen risk awareness. A public summary of the strategy taken by lead government departments (including HM Treasury) to mitigate risks in critical sectors is produced each year: the Sector Security and Resilience Plans ("SSRPs").

264. HM Treasury's RU engages closely with the other financial authorities to ensure critical service provision and effective response to operational incidents in the finance sector through:

a. regular sector and authorities exercising;

b. capacity building through cross-market industry groups;

c. sharing information between Government, agencies and the financial regulators;

d. introduction of regulatory levers where necessary.

265. In March 2021, the BoE, PRA and FCA published a joint Policy Statement on Operational Resilience for the finance sector. This clarifies and sets new expectations for firms to be able to respond quickly to operational disruption and resume critical service provision as soon as possible.

266. Amongst the financial authorities, HM Treasury's RU and the other financial authorities jointly oversee a cross-authority programme of work to build capacity and understanding of operational risks in the financial sector. This is governed by the HM Treasury-chaired Directors' Operational Resilience Coordination Group and is briefly outlined in the finance sector section of the public version of the Sector Security and Response Plan ("SSRP"). A detailed, classified workplan sits behind the public SSRP to structure cross-authority work to build understanding and address operational risks to the sector. This is agreed across the authorities and other HMG partners.

267. HM Treasury's RU and the other financial authorities engage closely with the finance sector to build capacity on operational risks through a wide programme of work including risk exercising, sector forums and regulatory change, where appropriate. The financial authorities with direct supervisory powers (the PRA, the BoE and the FCA) also engage directly with the firms supervised to build capacity to respond to operational risks across the sector.

268. The Financial Authorities (including HM Treasury's RU) exercise their response frameworks for operational disruption in the sector regularly. This includes but is not limited to:

a. ARF Seniors' Exercise: A cross-authority test of the ARF is conducted every two years with seniors from across the financial authorities. Every alternate year, an internal seniors' exercise is conducted within each authority;

b. SIMEX: A cross-industry simulation exercise to respond to sustained and widespread operational disruption. This BoE led exercise is conducted every two years;

c. Wider response exercising programmes: HM Treasury's RU (and the other financial authorities) also participate in HMG and international operational risk exercising programmes (e.g., through the G7 Cyber Experts Group (CEG)). The Authorities' Response Framework is used by the UK financial authorities to coordinate across authorities when there is an incident or threat that could cause a major disruption to financial services.

Financial Stability Group's Contingency Planning Unit

269. The Financial Stability Group's Contingency Planning Unit ("CPU") monitors, through engagement with PRA and FCA supervisors, the performance of and any risks to the stability of UK firms. It leads and executes HM Treasury's contingency planning response to risks impacting financial sector firms and it develops and maintains a hub of expertise in HM Treasury on contingency planning for risks to the stability of the UK financials system.

270. CPU is composed of two arms: CPU Banks and Non-Banks, and Crisis readiness. CPU Banks works with regulators and other parts of HM Treasury to monitor risks to UK and international banks. By working closely with the BoE, it plans for the orderly failure of any bank in distress, ensuring that depositors are protected and that the use of public funds is minimised. CPU Non-Banks monitors risks to UK non-bank firms, including FCA solo-regulated firms, credit unions and insurers. CPU Non-Banks also leads on HM Treasury's PCM project. Set up following the 2012 Sharon White review of "HM Treasury's management response to the financial crisis", PCM is aimed at improving HM Treasury's approach to financial crisis management and ensuring that HM Treasury are ready to effectively respond to future financial stability events. Under this project, HM Treasury have developed a suite of manuals and resources to support the deployment of tools in a crisis and mitigate any risks of diminishing experience. Regular training and exercising are conducted to maintain familiarity with the resources and processes and build resilience across the Financial Stability Group.

HM Treasury interactions with the Bank of England

271. The BoE is responsible for developing resolution plans and conducting resolvability assessments. The Financial Services Act 2012 (the 2012 Act) places a duty on the BoE to inform HM Treasury about a resolution plan or group resolution plan, which includes one or more options for the exercise of a stabilisation power. The 2012 Act also requires the BoE to provide HM Treasury with details of any material changes to the resolution plan,

ahead of adopting those changes, and any material changes to the BoE's assessments of the systemic risk of a firm failing and the implications for public funds.

272. The BoE (including PRA) and HM Treasury are required under section 65 of the 2012 Act to maintain a MoU on financial crisis management. The current MoU on resolution planning and financial crisis management was published in October 2017. The MoU sets out a framework for coordination of financial crisis management between HM Treasury and the BoE (including PRA). The MoU sets out that the BoE (including PRA) has primary operational responsibility for financial crisis management. The Chancellor of the Exchequer and HM Treasury have sole responsibility for any decision involving public funds. Where the BoE identifies a material risk to public funds, it has a statutory obligation to notify HM Treasury. The Chancellor of the Exchequer and HM Treasury are also responsible for keeping Parliament and the public informed of any actions taken to manage crises, and for ensuring that actions taken are consistent with the UK's international obligations.

Crisis Readiness Exercising

273. FinStab has a programme of regular internal testing with a range of objectives, from familiarising staff with resolution strategies (including reserve staff), to detailed walkthroughs of specific procedures required to support resolution, and senior level exercising of response processes under the Authorities' Response Framework. Since 2020, FinStab have conducted 'war-game' exercises every six months, to improve familiarity with its resolution toolkit and its ability to respond to a firm failure. These exercises aim to maintain a baseline level of readiness and familiarity with bank resolution and crisis management procedures (including communications), and to identify areas to improve processes and response capability.

274. Beyond internal preparedness work, the ARF is the single framework through which the financial authorities coordinate a collective response to operational incidents or threats affecting the finance sector. Wider government may also be involved in the ARF, including the National Cyber Security Centre ("NCSC"), although this will be on a need basis. As the lead government department for the finance sector, the ARF is owned by HM Treasury. However, the ARF is jointly maintained and regularly exercised by all three financial authorities. As part of this maintenance process, the ARF is subject to a joint annual

performance review by the Financial Authorities and NCSC seniors to ensure it remains effective.

275. UK financial authorities have conducted inter-authority domestic testing on a regular basis. This has included a number of walkthroughs of resolution strategies, as well as exercising the coordination of its crisis response procedures, at working-level and more senior levels. FinStab and the BoE regularly conduct joint exercises and teach-ins to improve familiarity with the resolution toolkit and to strengthen understanding of their respective functions and responsibilities in a crisis.

276. A regular programme of inter-authority international testing is in place and has been since before the pandemic. This has involved Resolution and Supervisory authorities, Central Banks, and Finance Ministries of EU, US and UK authorities. The series of exercises has included testing at Principal (Governor-level), Senior Staff level (Executive Director-level) and Staff-level. UK participants include: the Chancellor of the Exchequer; the Second Permanent Secretary; the Director General for Financial Services; the Governor of the BoE; the Deputy Governor, Financial Stability; the Deputy Governor for Markets, Banking and Resolution; and the Deputy Governor for Prudential Regulation.

277. The UK is also a member of the Trilateral Principal Level Exercise forum, alongside the US and EU authorities, which prepares for the resolution of a large multinational globally-systemically important bank.

Sector Response Framework

278. The Sector Response Framework ("SRF") sets out how the financial authorities, financial institutions and industry groups coordinate response actions and share information to ensure that the sector can respond effectively to significant operational incidents to maintain financial stability, market integrity and consumer confidence. The purpose of the SRF is set out in detail on the BoE's website.

279. During a significant operational incident, cross-market coordination and information sharing is coordinated through the SRF and the Cross Market Business Continuity Group ("CMBCG").

280. The SRF sets out how financial institutions, Financial Market Infrastructure ("FMI") and industry groups coordinate response actions and share information to ensure that the sector can respond effectively to significant operational incidents to maintain financial stability, market integrity and consumer confidence.

The Cross Market Business Continuity Group

281. The Cross Market Business Continuity Group ("CMBCG") is an executive-level group chaired by the BoE. Its primary aim is to act as a strategic forum to support authorities and key market participants' collective decision making on contingencies to mitigate impacts during an incident; and to facilitate industry-wide communications with UK Finance for maintaining confidence. This is the primary mechanism authorities use to interact with the sector in a coordinated way during times of major operational disruption.

282. CMBCG is a crisis response forum to respond to major operational incidents affecting the financial sector. Other forums are used to build resilience within the sector to prepare for risks. This includes the Cross Market Operational Resilience Group ("CMORG"), which is chaired by the BoE and provides strategic oversight of major risks in the financial sector. This group is predominantly made up of board level representatives from key market participants and the financial authorities. CMORG oversees a number of working groups, which seek to address operational resilience challenges in the sector.

Annex D – HM Treasury's engagement with departments on non-pandemic contingency planning

283. HM Treasury engaged with a range of departments who owned responsibility for non-pandemic emergency planning in the period prior to 2020. The below are two illustrative, non-exhaustive examples of that planning.

a. HM Treasury worked with the Department for Transport on contingency planning for emergency situations pre-Covid-19 that aided our response to the pandemic. For example, HM Treasury conducted work with the Department for Transport on the potential for provision of financial support for individual companies, including airlines at risk of insolvency, and how insolvencies were managed (including repatriation plans). HM Treasury also engaged with the Department for Transport's 'Transport Security Operations Centre' during transport civil emergencies, including disruption to the transport network, when this had implications for travellers and the wider economy.

b. HM Treasury also worked with the Environment Agency with support from the emergency services and the military, if necessary, to coordinate the initial response to any extreme weather event.

284. HM Treasury engaged with a range of Departments as part of the Brexit planning processes. Engagement included the Ministerial level EU Exit and Trade (Preparedness) committee, which then became EU Exit (Operations), and the Small Ministerial Group ("SMG"), which was a sub-committee of the EU Exit and Trade (Preparedness) Committee, chaired by the Chancellor of the Duchy of Lancaster, to take urgent operational and preparedness decisions required for a no-deal EU exit. Alongside the Chancellor of the Duchy of Lancaster, the ministerial attendees were as follows: the Chancellor, Home Secretary, Exit Secretary, Northern Ireland Secretary, Health Secretary, Transport Secretary and Environment Secretary.

285. Again, as part of the Brexit planning processes, HM Treasury engaged with the official level Yellowhammer Board, which reported to EU Exit (Operations). This was chaired by CCS, which existed to improve the UK's ability to prepare for, respond to, and recover from emergencies and disruptive challenges. From June 2018, CCS worked on contingency plans to address the short-term impacts of no deal under the code name of Operation Yellowhammer. HM Treasury led on work around risks to banking and finance industry services, ensuring adequate contingency plans were in place, working with CCS.

Annex E – HM Treasury's international engagement on risk management and emergency planning

286. With regards to international engagement, during the period in question, HM Treasury engaged with the Group of 20 ("G20") on civil emergencies and health threats, the British Virgin Islands ("BVI") government on hurricane recovery and the IMF on emergency planning, natural disasters and pandemics.

287. HM Treasury took part in G20 discussions on civil emergencies and health threats in:

a. 2012 (Mexico Presidency) on disaster risk financing;

b. 2015 (Turkey Presidency) on global health emergencies - the Finance track played a supporting (rather than primary) role in respect of the Ebola response;

c. 2016 (China Presidency) on antimicrobial resistance;

d. 2017 (Germany Presidency) on antimicrobial resistance and epidemic planning; and

e. 2019 (Japan Presidency) with the Joint Session of Finance and Health Ministers.

288. Following the Ebola outbreaks, in 2014 G20 Leaders asked the IMF and the World Bank to "explore new, flexible mechanisms to address the economic effects of future comparable crises". The IMF created the Catastrophe, Containment and Relief ("CCR") Trust facility, and the World Bank created the Pandemic Emergency Financing Facility. In 2015, the WHO created the Contingency Fund for Emergencies. The UK was the first country to pledge to the IMF Catastrophe, Containment and Relief Trust Fund ("CCRT") with a $50m contribution, and has continued to be a leading donor, contributing $194m to the CCRT during the Covid-19 pandemic, to support debt relief to countries to help them mitigate the impact of the crisis, and has contributed over $27 million to the WHO contingency fund.

289. As part of Spending Review 2015, recognising global health security as an important issue, the government committed to invest over £400 million over an eight year period in a new 'Science Hub' to provide Public Health England labs at Harlow, Essex and help protect the public from threats such as flu and Ebola, and in a new £1bn Ross Fund to develop, test and produce new products to help combat serious diseases in developing countries [CL/095, INQ000128606].

290. More widely, following the Ebola outbreak and lessons learned from the UK response to Hurricane Irma, the UK has increased its focus on disaster risk financing. This includes creating the Centre for Disaster Protection in 2017 and funding the Global Risk Financing Facility (in partnership with Germany) since 2019.

291. Global Health was a priority for Germany's G20 presidency in 2017. G20 Leaders agreed to further examine practical options for incentivising the development of much needed life-saving antibiotics to combat antimicrobial resistance. This followed agreement in the Hangzhou communique in 2016 that antimicrobial resistance ("AMR") "is a serious threat to public health, growth and economic stability".

292. Following this commitment in the G20 Leaders declaration, the UK has continued to take a leading role in the international work to incentivise development of new antibiotics. It was a core focus of our G7 presidency in 2021, where G7 Finance Ministers agreed to a statement on actions to support Antibiotic Development.

293. The UK has also created the Fleming Fund, a UK aid programme supporting countries across sub-Saharan Africa and Asia to tackle antimicrobial resistance, and invested in AMR research through the Global AMR Innovation Fund (GAMRIF), a UK aid fund that supports early-stage innovative research in underfunded areas of AMR research and development for the benefit of people in low and middle income countries.

294. Following the devastating hurricanes in 2017, HM Government committed to providing long-term recovery support to the BVI, in the form of grants and a loan guarantee of up to £300m for recovery and development programmes. The loan guarantee was first offered in November 2017 as part of a package of support to help BVI recover and to build back even better than before the hurricanes. HM Treasury engaged with the BVI government at a Ministerial level, in respect of the terms and conditions of the loan guarantee.

295. HM Treasury engaged with the IMF at Board level on building resilience to Natural Disasters, and on health crisis global resilience in 2018. This was in reference to whether the Fund should step up in these areas, mainstreaming discussions on the macro and fiscal impacts into their discussion with governments and building it into macro frameworks and Fund programmes. HM Treasury supported the government-owned Disaster Resilience Strategy, as a useful instrument for facilitating donor coordination, and the IMF giving a higher profile for disaster risk and disaster risk financing in its surveillance and lending activities, as evidenced through the role of the IMF's Catastrophe Containment and Relief Trust during Covid-19, which delivered vital financial support for vulnerable countries' emergency medical and relief efforts.

296. HM Treasury engaged with the Department for International Development ("DFID") on disaster risk financing to support certain developing countries. In 2017, the department

considered a Prosperity Fund bid from DFID to set up a Technical Assistance Facility in London that sought to address demand side impediments to uptake of catastrophe insurance.

297. HM Treasury does not hold information on contributions to the WHO budget during the period in question. Such contributions from the UK would likely have been made by DFID, and have been below the department's Delegated Authority Limit and therefore are not subject to HM Treasury scrutiny processes.

Annex F - HM Treasury's role in debt management

HM Treasury's role within debt management

298. The government's objective for debt management is to minimise, over the long-term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy takes into account the context of monetary policy and the wider macroeconomic policy framework of the UK.

299. An overarching requirement of debt management policy is that the government fully finances its projected financing requirement each year through the sale of debt. This includes gilts, Treasury bills and National Savings & Investments ("NS&I") products, with gilts making up the majority of government financing. Gilts are primarily sold via auctions held by the Debt Management Office ("DMO") but are sometimes sold by other methods, including syndications. The relative balance of the various instruments issued, including their maturity make up, as well as the proportionate split across the various issuance methods, may change in response to market conditions and the overall size of the financing requirement (such as during the Global Financial Crisis and Covid-19).

300. The DMO financing requirement at the start of the financial year is based on the OBR's forecast for the government's cash requirement, adjusted for other sources of financing and additional funding needed for gilt redemptions. The remit is revised during the year alongside OBR fiscal forecasts, and at other times where relevant new information suggests a need to adjust the remit to meet the government's financing needs.

301. Decisions on the structure of the annual DMO financing remit are based on assessments of investor demand (including through regular surveys of Gilt-Edged Market Makers – the primary dealers in gilts – and investor consultations) alongside a range of risk and cost considerations. The risks taken into account include:

a. interest rate risk – interest rate exposure arising when new debt is issued;

b. refinancing risk – interest rate exposure arising when debt is rolled over, with an increase in refinancing risk if redemptions are concentrated in particular years;

c. inflation risk – exposure to inflation, given principal and coupon payments due on index-linked gilts are indexed to the Retail Prices Index (RPI);

d. liquidity risk – the risk that the government may not be able to borrow from a particular part of the market in the required size at a particular time because that part of the market is insufficiently liquid; and

e. execution risk – the risk that the government is not able to sell the offered amount of debt at a particular time, or must sell it at a large discount to the market price.

302. The weight placed on each risk changes over time. The Treasury publishes an annual Debt management report, which sets out the specific cost and risk considerations around the upcoming financial year's debt financing remit.

Debt Management Office

303. The DMO's main aims are to carry out the Government's debt management policy of minimising its financing cost over the long-term and to minimise the cost of offsetting the Government's net cash flows over time, while taking account of risk. The DMO also provides loans to local authorities for capital purposes and manages the funds of selected public sector bodies.

304. The DMO and HM Treasury officials advise ministers on an annual debt financing remit that sets out the amount, structure and timing of gilt and Treasury bill issuance. The DMO then delivers the remit in a way that it judges will involve the least long run cost to the

Exchequer, subject to being compatible with other debt management policy considerations.

305. The government's cash management objective is to ensure that sufficient funds are always available to meet net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. The Treasury provides the DMO with confidential forecasts of daily cash flows into and out of the Exchequer, providing the net Exchequer cash requirement. The DMO then either arrange funding (borrow cash) or invest surplus in the money-markets.

306. A number of explicit limits are set covering four types of risk inherent in cash management, which together, represent the government's overall risk appetite. These risks are liquidity risk (the risk of not managing an expected payment before its due date), interest rate risk (exposure of cash management costs to changes in interest rates), foreign exchange risk (exposure to foreign currency movements) and credit risk (the risk of not paying back credit arrangements on time). The DMO may not exceed this boundary but, within it, has discretion to take the actions it judges will best achieve the cost minimisation objective.

307. The DMO has a formal risk management framework covering all the activities conducted and overseen by the DMO and it publishes a summary of the principal risks and uncertainties facing the DMO and the actions it is taking to manage and mitigate them. In its 2019-20 annual report and accounts, the DMO noted that it identified and assessed potential direct and indirect impacts of Covid-19 and had actively reviewed and strengthened its contingency arrangements.

Annex G - HM Treasury and the Devolved Administrations

Spending Reviews and the devolved administrations

308. The funding arrangements for the devolved administrations are set out in the Statement of Funding Policy, which was first published in March 1999 and has been updated eight times (with the most recent edition published alongside the 2021 Spending Review). The Statement of Funding Policy sets out how HM Treasury will fund the devolved administrations as well as the sources of self-funding (and financial flexibilities) available to the devolved administrations.

309. Similar to departments, devolved administrations receive multi-year funding settlements at SRs, with in-year changes in funding determined through annual Parliamentary Estimates processes. The quantum of funding provided to the devolved administrations is largely determined through the longstanding Barnett formula, with further adjustments to funding in relation to specific policy areas (notably agreed tax and welfare Block Grant Adjustments). The devolved administrations also have their own agreed tax and borrowing powers.

310. HM Treasury does not approve devolved administration spending as they are responsible for their own decisions and accountable to their respective legislatures. Devolved administration finance departments can, however, set delegated authority limits for their policy/delivery departments.

311. Agreements are generally reached bilaterally, reflecting the asymmetric devolution settlements, though discussions about cross-cutting issues take place in the Finance Inter-ministerial Standing Committee ("FISC") and its predecessor forum the Finance Ministers' Quadrilateral ("FMQ").

312. The Statement of Funding Policy [CL/096, INQ000068425] is a HM Treasury policy document that is subject to consultation with the devolved administrations, though much of the document now reflects agreements reached with the devolved administrations about their funding arrangements. In particular:

a. Scottish Government: The Statement of Funding Policy reflects the jointly agreed Scottish Government Fiscal Framework [CL/097, INQ000068434], which sets out the funding arrangements that underpin the latest Scottish devolution settlement (Scotland Act 2016). In particular, the UK and Scottish Governments agreed through the Joint Exchequer Committee (Scotland) that: the Barnett formula will continue to determine changes to Scottish Government block grant funding in relation to departmental spending (Departmental Expenditure Limits); this Barnett-based block grant funding will be adjusted in relation to tax and welfare devolution through an agreed Block Grant Adjustment methodology; the Scottish Government can borrow up to £3bn for capital purposes and up to £1.75bn for certain resource purposes (notably tax/welfare forecast error); and the Scottish Government can operate a £700m Scotland Reserve.

b. Welsh Government: The Statement of Funding Policy reflects the jointly agreed Welsh Government Fiscal Framework [CL/098, INQ000068435], which sets out the funding arrangements that underpin the latest Welsh devolution settlement (Wales Act 2017). In particular, the UK and Welsh Governments agreed through the Joint Exchequer Committee (Wales) that: a needs-based factor (initially 5%) will be added into the Barnett formula to uplift changes to Welsh Government block grant funding in relation to departmental spending (Departmental Expenditure Limits); this Barnett-based block grant funding will be adjusted in relation to tax devolution through an agreed Block Grant Adjustment methodology; the Welsh Government can borrow up to £1bn for capital purposes and up to £500m for certain resource purposes (notably tax forecast error); and the Welsh Government can operate a £350m Wales Reserve.

c. Northern Ireland Executive: There isn't a Fiscal Framework agreement between the UK Government and Northern Ireland Executive, though nor have there been as significant changes in the Northern Ireland devolution settlement as in Scotland and Wales. However, the Statement of Funding Policy still reflects specific agreements reached between the UK Government and Northern Ireland Executive. In particular, it includes the Northern Ireland Executive's £3bn capital borrowing under the Reinvestment and Reform Initiative ("RRI") and the agreed mechanism for adjusting Barnett-based block grant funding in relation to the devolution of long-haul Air Passenger Duty.

313. The below identifies and describes the key roles of those in the devolved administrations who cooperated with HM Treasury in relation to setting funding and controlling spending:

a. Scottish Government: The Scottish Government's organisational structures have evolved over the past decade to reflect its significant increase in tax, borrowing and welfare powers. The key roles now sit within the remit of the Director General Scottish Exchequer (with the Budget and Public Spending Directorate responsible for operating the Scottish Government's Fiscal Framework and setting the annual Scottish budget and medium-term financial strategy) and the Director General Corporate (as the Financial Management Directorate is responsible for in-year spending control).

b. Welsh Government: The Welsh Government's organisational structures have also evolved over the past decade to reflect its additional tax and borrowing powers. HM Treasury now works most closely with the Director General Economy, Treasury and Constitution (which includes working with the Welsh Treasury to set funding, under the Director of the Welsh Treasury) and the Chief Operating Officer's Group (which leads on in-year spending control under the Director of Finance).

c. Northern Ireland Executive: HM Treasury's main relationship is with the Department of Finance, which was the Department of Finance and Personnel until May 2016. Within the department the key engagement is with the Central Expenditure Division, which sits within the Public Spending Directorate.

Devolved Administrations access to the UK Reserve

314. Chapter 8 of the Statement of Funding Policy sets out the arrangements for the devolved administrations to access the UK Reserve. In summary, access will be considered by HM Treasury ministers in exceptional circumstances where either:

a. A UK Government department is granted access to the Reserve and a devolved administration is facing similar pressures,

b. A devolved administration faces specific costs that cannot reasonably be managed without a major dislocation of existing services.

315. Devolved administrations must send a ministerial letter to the Chief Secretary to the Treasury setting out their case. Access is judged on largely the same criteria as claims by UK Government departments but also considering the additional tools and powers available to them.

The Finance Inter-Ministerial Standing Committee

316. The Finance Inter-Ministerial Standing Committee ("FISC") [CL/099, INQ000068433] is the successor to the Finance Ministers' Quadrilateral ("FMQ") and is the key forum for ministerial engagement between HM Treasury and the devolved administrations (generally involving the Chief Secretary to the Treasury, the Scottish Government's

Cabinet Secretary for Finance and the Economy, the Welsh Government's Minister for Finance and Local Government and the Northern Ireland Executive's Finance Minister).

317. Under the FISC Terms of Reference, its purpose is to consider economic and finance matters affecting the UK. This includes considering UK-wide and nation-specific macroeconomic and fiscal positions, as well as emerging and longer-term economy and finance challenges where collaboration and sharing of information supports planning, policy development and decision-making. The FISC typically meets quarterly and is supported by an official level Secretariat.

318. The predecessor Finance Ministers' Quadrilateral covered similar issues, though (aside from during Covid) generally met less frequently than FISC.

319. Alongside multilateral engagement, HM Treasury undertakes bilateral engagement at ministerial and official level:

a. Scottish Government: Since 2011 the main bilateral ministerial engagement takes place through the Joint Exchequer Committee (Scotland), generally involving the Chief Secretary to the Treasury and the Scottish Government's Cabinet Secretary for Finance and the Economy. The previous arrangements were formalised to support the passage of the Scotland Bill 2011, notably in relation to the devolution of tax and borrowing powers. There is a supporting Joint Exchequer Committee (Scotland) Official forum as well as frequent working level engagement.

b. Welsh Government: Similar to the arrangements in Scotland, since 2014 the main ministerial bilateral engagement takes place through the Joint Exchequer Committee (Wales), generally involving the Chief Secretary to the Treasury and the Welsh Government's Minister for Finance and Local Government. There is a supporting Joint Exchequer Committee (Wales) Official forum as well as frequent working level engagement.

c. Northern Ireland Executive: In the same way that there is no formalised Fiscal Framework agreed between HM Treasury and the Northern Ireland Executive, the engagement hasn't been formalised as a Joint Exchequer Committee. Instead, ministerial engagement between the Chief Secretary to the Treasury and the Northern Ireland Executive Finance Minister takes place as necessary, supported by working level engagement.

320. HM Treasury does not have a relationship with Emergency Preparedness Groups in Northern Ireland, Health Protection Networks in Scotland, LRFs and the Welsh Resilience Forum in Wales; nor similar entities. This is because any such relationships will be managed for the UK Government by relevant policy departments.

Annex H – HM Treasury's internal operational preparations for an emergency

Effective supporting infrastructure

321. IT has long been recognised as a critical enabler of HM Treasury's ability to respond to events such as the global financial crisis and the outbreak of Covid-19. Improvements in IT provision in the years prior to the pandemic were fundamental to the Department's preparedness, including through:

a. introducing and promoting the capability for working from any location through the replacement of tower desktop computers with laptops for all staff in 2009/10;

b. testing IT capacity and user capability for full remote working as part of a business continuity test in June 2019 when all staff were told to work from home in June 2019;

c. migration in Q1 2019 from on-premises servers to a cloud-based services, including O365, which helped ensure that the Department's capacity to manage large increases in quantities of data such as email, messaging, online document collaboration and tele/video-conferencing usage; and

d. responsive IT contracts, with forward looking delivery roadmaps in place, which enabled swift upgrades in hardware and applications when needed, and had delivery plans for rollout of collaboration tools in place.

Effective business continuity plans

322. Business continuity planning and preparation has long been an operational priority within HM Treasury, with scenario planning and practical preparations undertaken at each level of the business from individual teams to EMB.

323. The Operations Committee oversees the Business Continuity Management policy for the department and assesses the business of each Group, considering their business-as-usual functions alongside the implications of standalone (fiscal event, spending review) or unpredictable (pandemic, extreme weather event) influences.

324. Consistent oversight and forward planning ensured HM Treasury was operationally prepared for the Covid-19 outbreak. Actions directly influencing preparedness included:

a. Operating Committee approval of a programme of work throughout 2019 to update all group level continuity plans. The Departmental Security Team worked with Directors and their Group Management Teams to revisit their Business Impact Assessments, refresh all Business Continuity Plans, and undertake tailored business continuity exercises before the end of the calendar year; and

b. all staff business continuity exercises in June and November 2019. The Department took the opportunity presented by the closure of 1 Horse Guards Road due to the visit of President Trump to test IT resilience and business continuity plans. Further testing took place in response to protest activity in the Whitehall area in November 2019.