AUTUMN PERFORMANCE REPORT

Progress Report on HM Treasury Public Service Agreement Targets

December 2005

HM TREASURY

Cm 6696

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Progress Report on HM Treasury Public Service Agreement Targets

Presented to Parliament by the Chancellor of the Exchequer and the Chief Secretary to the Treasury by Command of Her Majesty

December 2005

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This is the fourth HM Treasury Autumn Performance Report to be produced, fulfilling the Government's commitment to provide a bi-annual progress report against the Government objectives established in the 1998 Comprehensive Spending Review (CSR), the 2000 Spending Review (SR2000) the 2002 Spending Review (SR2002), and the 2004 Spending Review (SR2004).

This report can be read as a stand alone document. However, many readers may find it useful to refer to HM Treasury's 2005 Departmental Report: Cm 6540 which sets out more detailed background information and commentary.

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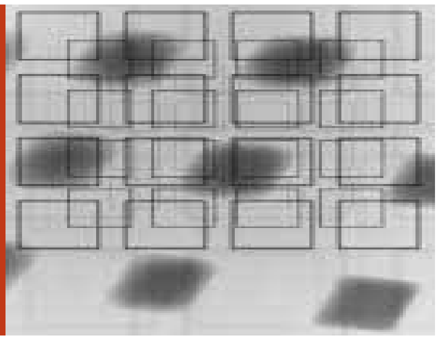


Foreword

By the Chief Secretary, the Rt Hon Des Browne MP

This Government's ongoing objective is to deliver a strong economy and a fair society, with opportunity and security for all. Taking long-term decisions to promote flexibility, enterprise and fairness, we have sustained investment in public services and continued to deliver against our goals.

- **Maintain economic stability** – the UK economy continues to benefit from its longest unbroken expansion on record. Gross Domestic Product (GDP) has now grown for 53 consecutive quarters, with interest rates at historic lows and the longest period of sustained low inflation since the late 1960s.

- **Increase employment opportunity for all** – the number of people in work is now at record highs and the unemployment rate is among the lowest in G7. New Deal programmes have helped to reduce both long-term youth unemployment (aged 18-24) and long-term unemployment (age 25+) by more than three-quarters since 1997.

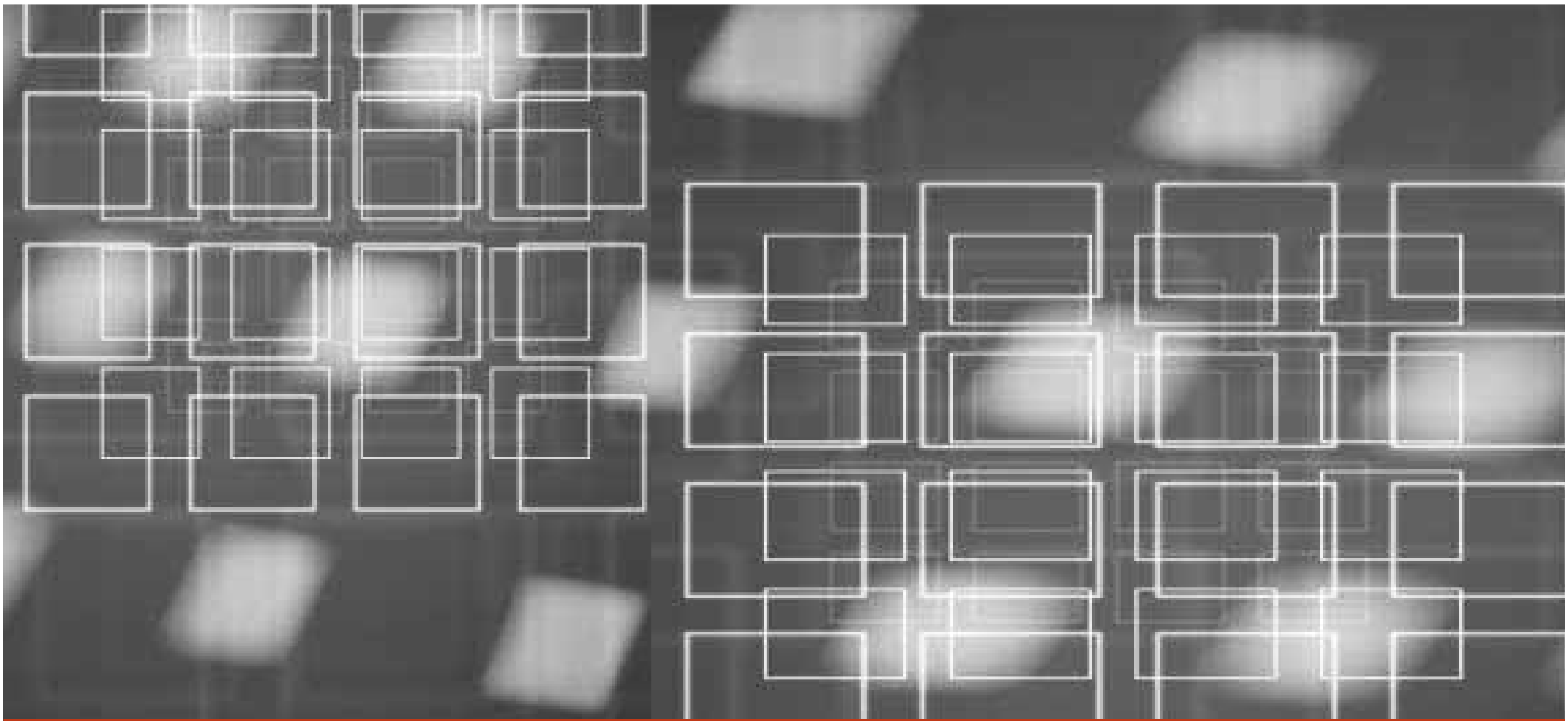
- **Create a fairer society** – we have radically reformed support for families with children, with some 6.1 million families and 10.3 million children benefiting from tax credits. As a result of such reforms families with children are on average £1,500 a year better off, the poorest fifth some £3,350 a year better off than they were in 1997. With the introduction of the Pension Credit we are also now spending around £10 billion more in real terms on pensioners, lifting 2 million pensioners out of absolute low-income poverty since 1997.

- **Invest in and build world-class public services** –with £4.7 billion of efficiency savings already achieved towards our £20 billion target by 2007-08, resources are being released to the front line. In education we have delivered 32,500 more teachers, and smaller class sizes. So to lock in record levels of investment, promote further reform and ensure Britain is fully equipped to meet the challenges of the decade ahead, I have announced the Government will conduct a second Comprehensive Spending Review.

2005 has also provided a unique opportunity to promote international development. Through our twin presidencies of the G7 and the European Union, we have made notable progress to secure additional finance to meet the Millennium Development Goals. Additional commitments from the G8 to increase aid will help realise around $50 billion of annual global aid increases by 2010, at least half of which will be for Africa.

Treasury officials have been at the heart of each of these initiatives, and I want to thank every one of them for their clear dedication over the last year.

Des Browne



CONTEXT

Context

1.1 This is the fourth Autumn Performance Report published by Her Majesty's Treasury. It provides information for the period 1st April to 30th September 2005 on the progress the Treasury is making towards its Spending Review 2004 (SR2004) Public Service Agreement (PSA) targets. It also includes, for the first time, an Annex on progress against the SR2004 Efficiency Target.

1.2 SR2004 set PSA targets for the period 2005-08. These targets in most cases left unchanged, or reinforced and refined, targets set for the period 2003-06 under the Spending Review 2002 (SR2002). Where possible the reporting for these targets has been combined but, where there were more substantial differences in the wording of the targets or the performance indicators, the SR2002 target and commentary has been kept separate and is written in ***italics*** for clarity (see Annex A). The Treasury has one remaining PSA target set for the period 1999-2002 under the 1998 Comprehensive Spending Review (CSR1998). Performance against this target is shown in Annex B.

1.3 This year's report also includes a section reporting against the Treasury Group[1] Efficiency Target which was set in SR2004 (See Annex C).

Performance Information

1.4 In SR2004, the Treasury's aim and five out of the eight Treasury objectives had at least one PSA target and a performance indicator (PI) to measure progress. Objectives cover the full range of departmental activity over the medium term. PSA targets measure progress towards the objectives, through tracking specific priorities, over the three-year frame covered by spending plans. Some of our targets are short term where a significant change can be seen over a relatively short period of time. Some are longer term, where change is less obvious in the short term and progress needs to be assessed over a longer time period.

1.5 Each PSA target is underpinned by a technical note, which sets out how the target is measured, how success is defined, and the sources of relevant information such as geographic or demographic coverage. Further information on the technical note is available on the Treasury's website.

1.6 For further information on the Treasury's work to deliver its PSA targets please refer to the HM Treasury Departmental Report 2005 (Cm6540) available on the Treasury's website.

Progress

1.7 A summary of the current position on the Treasury's PSA targets is set out in the Annexes to this report.

- Annex A – reports on performance against SR2004 PSA targets (2005-08) and any outstanding SR2002 PSA targets (where it was not possible to subsume them entirely because of more marked differences between the two targets the SR2002 targets are in ***italics***).
- Annex B – reports on the one remaining CSR1998 target that is still live.
- Annex C – is a commentary on performance against the HM Treasury Group SR2004 Efficiency Target.

[1] Treasury Group includes Office of Government Commerce (OGC) and Debt Management Office (DMO)

Standard terminology in line with Treasury central guidance to departments has been adopted when reporting against all targets. For final assessments, the terms used are:

TERM	DEFINITION
Met	Target achieved by the target date.
Met - ongoing	For older targets where no end date was set, but the target level has been met and a decision has been taken to make a final assessment.
Partly met	Where a target has two or more distinct elements, and some – but not all – have been achieved by the target date.
Not met	Where a target was not met or met late.
Not known	This will only be used where it is not possible to assess progress against the target during its lifetime or subsequently. In these cases an explanation will be given as to why, and reference made to any subsequent targets covering the same area.

For interim assessments of those targets yet to reach their completion date, the terms used are:

TERM	DEFINITION
Met early	The target has been met ahead of schedule.
Met - ongoing*	The target is still live, but is measured on a continuous basis.
Ahead	Progress is exceeding plans and expectations.
On course	Progress is in line with plans and expectations.
Slippage	Progress is slower than expected.
Not yet assessed	A new target for which data are not yet available.

HM TREASURY'S AIM AND OBJECTIVES - SPENDING REVIEW 2004

The overall aim of the Treasury for the SR2004 period (2005-08) is to **raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.**

Maintaining Stability at Home and Overseas

Maintain a stable macroeconomic framework with low inflation and sound public finances in accordance with the Code for Fiscal Stability (Objective I)

Promote UK economic prospects by pursing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable (Objective V)

Raising Trend Growth

Increase the productivity of the economy (Objective II)

Promote efficient, stable and fair financial markets, for their users and the economy (Objective III)

Promoting Fairness and Opportunity for All

Expand economic and employment opportunities for all (Objective II)

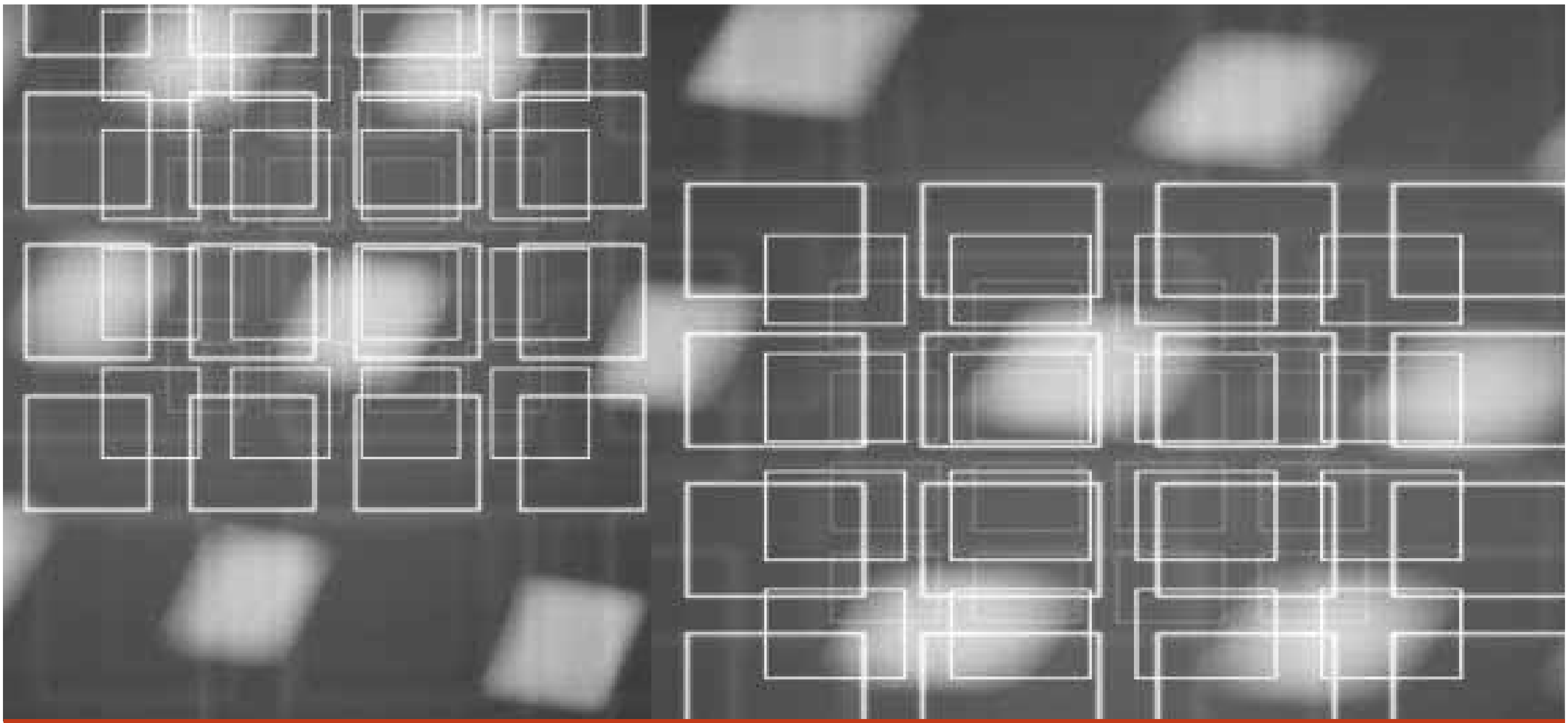
Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest (Objective IV)

Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies (Objective VIII)

Delivering High Quality Public Services

Improve the quality and cost effectiveness of public services (Objective VI)

Achieve world-class standards of financial management in government (Objective VII)



ANNEX A

PERFORMANCE AGAINST SR2004 AND ***SR2002*** PSA TARGETS

Aim: Raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all

SR2002 PSA Target	I *Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.*
SR2004 PSA Target	I Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projections.
Performance Indicator	Trend rate of output (non-oil i.e., excluding oil and gas extraction) growth over the complete economic cycle. (Same for both targets).

Commentary *SR2002 Target*	***On course*** *The measure of the Treasury's performance in meeting this target is the estimate of the trend rate of non-oil output growth over the current economic cycle. However, this cannot be determined until the current cycle is completed. The current economic cycle is now judged to have commenced in 1997H1, and is not yet judged to have been completed. Therefore the Treasury reports on growth so far in the current economic cycle, together with the adjudged cyclical position of the economy.* *From the start of the current cycle in 1997H1 to 2005Q3 growth has averaged 2.8 per cent a year, compared with 2.5 per cent over the previous cycle. The Treasury estimates the economy to have been below trend in 2005Q3. From its current position of below trend output to when the economy returns back to trend, growth is expected to be higher than its trend rate. This means that the target is expected to be met comfortably.*
SR2004 Target	**On course** The measure of the Treasury's performance in meeting this target is the estimate of the trend rate of non-oil output growth over the economic cycle in relation to the trend projections set out in Budget 2004. The Budget 2004 projection was for 2¾ per cent trend growth up to the end of 2006. From 2006Q4 onwards, trend growth is projected to be 2½ per cent due to demographic effects, which are expected to depress growth in the working age population. As the Budget 2004 projections commenced during the current economic cycle, which is judged to have not yet completed, the Treasury reports on growth so far in the current economic cycle, together with the adjudged cyclical position of the economy. Latest data show growth in real non-oil output between 2001Q3 – the economy's last on-trend point - and 2005Q3 averaging 2.4 per cent a year. From 1997H1 - now judged as the start of the current cycle - to 2005Q3 growth has averaged 2.8 per cent a year, compared with 2.5 per cent over the previous cycle. The Treasury estimates the economy to have been below trend in 2005Q3. From its current position at below trend output to when the economy returns back to trend, growth is expected to be higher than its trend rate. Keeping in mind that it is an early stage of the reporting period, this is consistent with being **on course to meet the target**.
Quality of data systems	All the underlying data used in the trend growth calculations are sourced from the Office for National Statistics.

Objective I: Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability

SR2004 PSA Target	2 Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent for the 12 month increase in the Consumer Prices Index (CPI)). 12 month increase in the CPI.
Performance Indicator	The CPI is a measure of the change in the level of prices charged for consumer goods and services. It is constructed on a harmonised basis for all EU Member States. The common European standard is known as the Harmonised Index of Consumer Prices (HICP) and the CPI is the UK's measure.

Commentary	**Met-ongoing*** From April 2005 to end September 2005 (the period covered by this report) inflation has been in the range 1.9 to 2.5 per cent.
Quality of data systems	The CPI data are sourced from the Office for National Statistics.

Objective 1: Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability

SR2004 PSA Target	3 Over the economic cycle, maintain: public sector net debt below 40 per cent of Gross Domestic Product (GDP); and the current budget in balance or surplus.
Performance Indicator	Public sector net debt as a percentage of GDP at the end of each year of the economic cycle. The average surplus on current budget as a percentage of GDP over the economic cycle.

Commentary	**On course** Public sector net debt was 34.7 per cent of GDP in 2004-05, and is projected to be low and stable over the next five years, stabilising at around 38 per cent of GDP at the end of the projection period below the 40 per cent ceiling of the sustainable investment rule. The Government is therefore on course to meet this target. The current budget since the start of the current economic cycle in 1997-98 shows an average annual surplus up to 2004-05 of 0.2 per cent of GDP. The current cycle is expected to end in 2008-09. The average annual surplus on the current budget over the whole cycle is projected to be 0.1 per cent of GDP. The Government is therefore **on course** to meet this target on the basis of cautious assumptions.
Quality of data systems	Underlying data sourced from the Office for National Statistics. The National Audit Office audits the dating of the end of the previous economic cycle.

Objective II: Increase the productivity of the economy and expand economic and employment opportunities for all

SR2004 PSA Target	4 Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. (Joint target with Department of Trade and Industry (DTI)).
Performance Indicator	Performance is measured using: • international comparisons of productivity (ICP) data: output per worker and output per hour. The data are produced by the Office for National Statistics (ONS) based on Organisation for Economic Co-operation and Development (OECD) data; and • trend productivity growth in the UK over the economic cycle, which is taken from the HM Treasury estimates published in the Budget and Pre-Budget Report.

Commentary	**On course** Improving productivity is a long-term objective. Given the sensitivity of the headline productivity figures to cyclical change, UK performance is assessed between points where the economy is assessed to have been on trend, as defined in the Trend Growth estimate (see quality of data systems). The most recent figures show: • progress towards raising the trend rate of productivity growth – actual productivity (output per hour) is estimated to have been growing at 2.59 per cent in the recent past (1997H1-2001Q3) compared to 2.04 per cent in the previous cycle (1986Q2-1997H1), and underlying productivity by 2.79 per cent compared to 2.22 per cent; and • the UK has been making progress in closing the gap with peer economies - for example the gap with Germany has now closed and the gap with France has been narrowing. The gap with the US remains broadly unchanged. Several initiatives have been announced in the 2005 Pre-Budget Report which will help to drive further productivity across the UK. More details are available on the HM Treasury website.
Quality of data systems	The Treasury monitors progress on the productivity gap with data published by the Office for National Statistics on the International Comparisons of Productivity[1] (ICP), which are themselves based on OECD data. Small changes in the ICP series are interpreted cautiously to allow for some margin of error in the constituent parts. Trend estimates of productivity are drawn from Treasury estimates (see Table A2 of the 2005 Pre-Budget Report) that constitute part of the trend growth estimate. The methodology upon which these estimates are based is set out in the Treasury publication 'Trend Growth: Recent Developments and Prospects, April 2002'. The National Audit Office audits the assumption on trend growth used in the public finance projections.

[1] http://www.nationalstatistics.gov.uk/cci/nugget.asp?id=161

Objective II: Increase the productivity of the economy and expand economic and employment opportunities for all

SR2002 PSA Target	*7 Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle (joint target with the Department for Work and Pensions).*
Performance Indicator	*For employment, seasonally adjusted International Labour Organisation (ILO) employment rates for the working age population of Great Britain (GB), with a judgement as to the economic cycle, as assessed by the Treasury in the Pre-Budget Report and Budget.* *For unemployment, seasonally adjusted ILO unemployment rates for the population of GB, aged 16 and over, with a judgement as to the economic cycle, as assessed by the Treasury in the Pre-Budget Report and Budget.*

Commentary	**On course** *Latest data August to October 2005, gives an employment rate of 74.8 per cent and an unemployment rate of 5.0 per cent.* *Given the current position in the economic cycle we can expect a rise in employment by the end of the cycle. This is because we presently estimate that there is a negative output gap - the economy is operating below potential. This means the employment rate is judged to be below its equilibrium level and is therefore expected to rise, and the unemployment rate is expected to fall, by the time we get to the end of the cycle.* *The baseline for this target is spring (March - May) 2003.*
Quality of data systems	*UK labour market figures for employment and unemployment are taken from the Labour Force Survey (LFS) and are published by the Office for National Statistics. The definitions used in the LFS are based on internationally agreed standards set by the International Labour Organisation (ILO).*

Objective II: Increase the productivity of the economy and expand economic and employment opportunities for all

SR2004 PSA Target	5 As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate (Joint target with the Department for Work and Pensions).
Performance Indicator	The target will be measured using the seasonally adjusted employment rate (the proportion of the population of working age (16-59 for females and 16-64 for males) who are in employment) in Great Britain, based on the International Labour Organisation (ILO) definition.

Commentary	**On course** Latest data, covering August to October 2005, gives an employment rate of 74.8 per cent. Given the current position in the economic cycle at this initial phase of the reporting period, we can expect a rise in employment by the end of the cycle. This is because we presently estimate that there is a negative output gap - the economy is operating below potential. This means the employment rate is judged to be below its equilibrium level and is therefore expected to rise by the time we get to the end of the cycle. The baseline for this target is spring (March - May) 2005.
Quality of data systems	UK labour market figures for employment are taken from the Labour Force Survey (LFS) and are published by the Office for National Statistics. The definitions used in the LFS are based on internationally agreed standards set by the International Labour Organisation (ILO).

Objective II: Increase the productivity of the economy and expand economic and employment opportunities for all

SR2004 PSA Target	6 Make sustainable improvements in the economic performance of all English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. (Joint target with the Office of the Deputy Prime Minister and the Department of Trade and Industry).
Performance Indicator	The main indicator for this target is Gross Value Added (GVA) per head in each region.

Commentary	**On course** A full assessment of trends in regional economic activity and disparities cannot be fully determined until the current economic cycle is complete. However, the evidence so far is encouraging: • in 2003 (the last year we have GVA data for[2]) the six underperforming regions had nominal GVA growth rates per capita between 5.3 per cent and 5.5 per cent compared to an average of 3.6 per cent for three regions of the greater South East; and • all regions of the UK grew in 2003 (between 2.4 per cent and 5.5 per cent). In addition to the GVA data there is other encouraging evidence with, in particular, unemployment decreasing and employment rates up in the North.
Quality of data systems	Performance against this target is measured through estimates of the trend rate of growth in GVA per head in each region for the period 2003-2008. The gap in growth rates is measured by comparing the average growth rate of regions that currently have above average GVA per head with the average growth rate of regions that currently have below average GVA per head. Next GVA data are expected to be available in December 2005 or January 2006.

[2]Data can be found in The Regional Accounts published by the Office for National Statistics in December 2004.

Objective III: Promote efficient, stable and fair financial markets, for their users and the economy

SR2004 PSA Target	There is no PSA target for Objective III, assessment is based on overall progress.
Performance Indicator	N/A

Commentary	**On course** Key achievements include: • the introduction of simplified medium and long-term 'stakeholder' savings products, now offered by many providers and supported by a national marketing campaign launched in September 2005; • improving access to financial services using the Financial Inclusion Fund (£120 million over three years) through the Financial Inclusion Task Force and working with banks to reduce the number of unbanked households and with other agencies to improve financial capability; • taking forward the commitment with the Payment Systems Taskforce to improve the efficiency of payment systems. The speeding up of certain electronic payments was agreed in May 2005; • the UK's strategic priorities for future EU financial services regulation were reflected in the Commission Green Paper in May 2005, as endorsed by ECOFIN in October 2005; • taking forward the commitment to reunite owners with unclaimed assets held by banks; • completing implementation of the Two-Year Review of the Financial Services and Markets Act in July 2005 and taking a lead role in Government's wider better regulation agenda, including quantifying and reducing burdens and simplifying regulation; • responding appropriately to the events of 7th July and continuing to strengthen financial sector resilience through the FSA-led Resilience Benchmarking Project and Market-wide Exercise in November; and • freezing the assets of terrorists, to meet international obligations.
Quality of data systems	N/A

Objective IV: Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest

SR2002 PSA Target	8 *Reduce the number of children in low-income households by at least a quarter by 2004 as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020 (joint target with the Department for Work and Pensions).*
SR2004 PSA Target	7 Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. (Joint with the Department for Work and Pensions).
Performance Indicator	Number of children in low income households by 2004-05 and 2010-11. Low-income households are defined as households with income below 60 per cent of contemporary median as reported in the annual Households Below Average Income (HBAI). HBAI statistics cover Great Britain and Northern Ireland from 2002-03. Progress is reported against the 1998-99 baseline figures and methodology. The baseline is 4.1 million children in low-income households after housing costs (AHC) and 3.1 million before housing costs (BHC) for the SR2002 target.

Commentary	**On course** Data on the final outcome of the SR2002 target will be available in March 2006. Most recent data (March 2005) show that between 1998-99 and 2003-04 the numbers of children in low-income households fell by 0.6 million AHC and 0.5 million BHC. This does not reflect the £180 per year increase in the child element of the Child Tax Credit announced in Pre-Budget Report 2003, which took effect from April 2004. The Government is therefore broadly on course to meet the SR2002 target on a BHC basis. Achieving the target is less certain on an AHC basis. There are, however, uncertainties either way on both measures. Progress made towards the SR2002 target will also contribute towards the SR2004 target. The Child Poverty Review, published alongside the SR2004 White Paper, outlined a long-term strategy for meeting this target and a number of measures are now in place to deliver on this strategy.
Quality of data systems	Performance against this target is assessed using the annual Households Below Average Income (HBAI) report published by the Department for Work and Pensions under National Statistics.

Objective V: Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable

SR2004 PSA Target	8-part i	Promote increased global prosperity and social justice by working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards.
Performance Indicator		The International Monetary Fund (IMF) assess member countries' compliance with internationally agreed codes and standards through production of Reports on the Observance of Standards and Codes (ROSCs).

Commentary	**On course** As with the SR2002 PSA target, the UK continues to be on course to meet this target. As of the end of April 2005, the total number of countries that have completed at least one ROSC module was 122 compared with 114 at the end of 2004 and 84 in September 2002. This means that 66 per cent of IMF member countries have now completed at least one module. The total number of ROSC modules undertaken as of the end of April 2005 was 622 with 75 per cent having been published.
Quality of data systems	Information on the number of ROSCs completed is regularly updated by the IMF. Further information is available on the IMF website[3].

[3] http://www.imf.org/external/np/rosc/rosc.asp

Objective V: Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable

SR2004 PSA Target	8 – part ii	Ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008; and international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs). (Joint target with the Department for International Development.)
Performance Indicator		Number of countries reaching Completion Point as recorded in 'Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation', available on the International Monetary Fund (IMF) website[4].

Commentary	**HIPC** **On course** The HIPC targets are for 25 countries to reach Completon Point by end 2008, and 20 countries to reach Completion Point by end 2006. Despite slower than expected progress in some decision point countries, 18 have already reached Completion Point. As many as 25 countries may have reached Completion Point by the end of 2006 and all 28 Decision Point countries will probably reach Completion Point in 2007 or before. IMF and World Bank Annual Meetings in September agreed the G8 proposal for 100 per cent multilateral debt relief for HIPCs once they have reached Completion Point, providing further irrevocable debt relief for countries that are committed to poverty reduction. **International efforts on MDGS** **On course** Important progress was made in 2005 with the EU commitments (for each member state to reach 0.51 per cent official development assistance (oda)/Gross National Income (GNI)), and those made at the G8 summit (to provide an extra $50bn of aid by 2010, including a doubling of aid to Africa). However, continued efforts will be needed to ensure the commitments are delivered. The Organisation for Economic Cooperation and Development (OECD)/ Development Assistance Committee (DAC) figures for 2003 already show a total net oda of $67.1 billion. The International Finance Facility for Immunisation (IFFIm) was also launched on 9 September 2005.
Quality of data systems	**HIPC element:** Decision Point and Completion Point for countries in the HIPC Initiative are determined by the Boards of the IMF and the World Bank and are made public on the websites of these institutions. **MDGs element:** The data used in assessing progress towards the MDGs and financing commitments are taken from the United Nations and OECD.

[4]http://www.imf.org/external/np/hipc/doc.htm

Objective V: Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable

SR2004 PSA Target	8-part iii	Working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008.
Performance Indicator		Progress is measured using Eurostat data for the total EU employment rate (against an EU target of 67 per cent by 2005 and 70 per cent by 2010) and the percentage difference between US and EU labour productivity per hour and per worker.

Commentary	**Slippage** The EU is over 5 years into a 10-year process of structural reform, which has seen the opening up of new markets to competition, modernisation of the Community's competition and state aid rules, reforms to promote better regulation in the Union, and actions taken by many Member States to promote enterprise and innovation and establish greater labour market flexibility. Nonetheless, the pace of reform must be accelerated if the enlarged EU is to meet the Lisbon goals. EU25 employment rose to 63.3 per cent in 2004 from 61.9 per cent in 1999 (year prior to start of Lisbon strategy). The productivity gap between the EU15 and US in 2002 was 10 per cent on per hour basis and 27 per cent on per worker basis, compared with 9 per cent and 25 per cent in 1999. Strengthening economic reform in Europe has been a key priority of the UK Presidency of the EU. In the autumn of this year, Member States submitted their first National Reform Programmes (NRP) setting out the policies they intend to pursue to meet the challenges of globalisation; the Government presented the UK NRP to Parliament on 13 October 2005. During the UK Presidency, further steps have also been taken to reduce the burden of EU regulation on businesses, strengthen the transatlantic economic relationship, and deliver greater integration in European financial services markets. The Treasury will continue to work with EU finance ministries, the European Commission and other EU partners to advance the pace of economic reform in Europe, during the remainder of the UK Presidency of the EU and beyond.
Quality of data systems	The data for the productivity and employment measures used for this PSA target are sourced from the Eurostat structural indicators database, which is maintained and developed by Eurostat, and mandated by the Council of the European Union. EU25 data is not currently available for both productivity measures. Outturn data, particularly for productivity, are subject to a time lag due to national data collection and Eurostat collation and standardisation and, furthermore, can periodically be revised subsequent to publication.

Objective VI: Improve the quality and the cost-effectiveness of public services

SR2004 PSA Target	9 Improve public services by working with departments to help them meet their: • PSA targets, (Joint target with the Cabinet Office); • efficiency targets amounting to £20 billion a year by 2007-08; consistent with the fiscal rules.
Performance Indicator	Departmental progress towards PSA target and efficiency delivery is reported biannually in (spring) Departmental Reports and Autumn Performance Reports and progress towards SR2002 PSAs is set out on the PSA performance website[5]. Overall progress of the Efficiency Programme is reported through the Budget and Pre-Budget Report process.

Commentary	**PSA element: not yet assessed** SR2004 set stretching outcome-focused targets for key areas of the public services. The Treasury and the Prime Minister's Delivery Unit are working together and with departments to promote and support effective planning and management to deliver PSA targets, though responsibility for delivery of the targets rests with departmental Secretaries of State, as set out in the "who is responsible" section of each PSA. We are **on course** to meet the related SR2002 target, to improve public services by working with departments to help them meet their PSA targets, consistent with the fiscal rules (Joint target with the Cabinet Office). Most of the SR2002 targets have yet to reach their completion dates. A final assessment will only be possible after all parts of the targets have fallen due. In the meantime, departments continue to publish ongoing progress in their own departmental and performance reports. Progress can of course vary up to the point that a final report is made. In the latest departmental reports (spring 2005) summary interim assessments were made for a majority of PSA targets. For targets where an assessment was made, over 70 per cent were reported to be on course. **Efficiency element: on course** The 2005 Pre Budget Report (PBR) announced that departments and local authorities have reported annual efficiency gains totalling £4.7 billion, 31,000 gross workforce reductions, including 5,700 reallocations to the frontline and 6,300 relocations, meaning that the Government is on course to meet the SR2004 target of £20 billion worth of annual efficiencies by 2007-08 and continues to forecast total efficiencies by then of £21.4 billion; together with its plans for a gross reduction of 84,000 civil service posts by 2008 and the relocation of 20,000 public sector posts by 2010.
Quality of data systems	The data systems underpinning PSA targets are validated by the National Audit Office (NAO). Departmental Efficiency Technical Notes (ETNs) outline how departments will achieve their efficiency targets up to 2008. Revised ETNs have been published alongside the PBR. Efficiency gains are calculated using Departmental information systems, following guidance from the Office of Government Commerce (OGC).

[5] http://www.hm-treasury.go.uk/performance

Objective VI: Improve the quality and the cost-effectiveness of public services

SR2002 PSA Target	10 *By 2005-06, deliver £3 billion of value for money gains in central civil government procurement through the Office of Government Commerce (OGC).*
SR2004 PSA Target	10 Deliver a further £3 billion saving by 2007-2008 in central government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives.
Performance Indicator	Annual returns on value for money gains reported by central civil government bodies and centrally collected data on procurement in civil central government. The reporting is based on methodologies agreed with the National Audit Office.

Commentary	
SR2002 PSA Target	***Met early*** *Value for money gains in 2003-04 were £2 billion and in 2004-05 £2.3 billion, thus meeting the SR2002 PSA target a year early.*
SR2004 PSA Target	**On course** There will be no firm data on this target until mid-2006. Performance for the equivalent target for SR2002 was very strong, with the target being exceeded in the first two years of a three year target.
Quality of data systems	Value for money gains are measured by individual departments and through other methodologies. OGC has published detailed methodological guidance to departments entitled "Value for Money Measurement". OGC aggregates the data produced by the methodologies to produce the total.

Objective VII: Achieve world-class standards of financial management in government

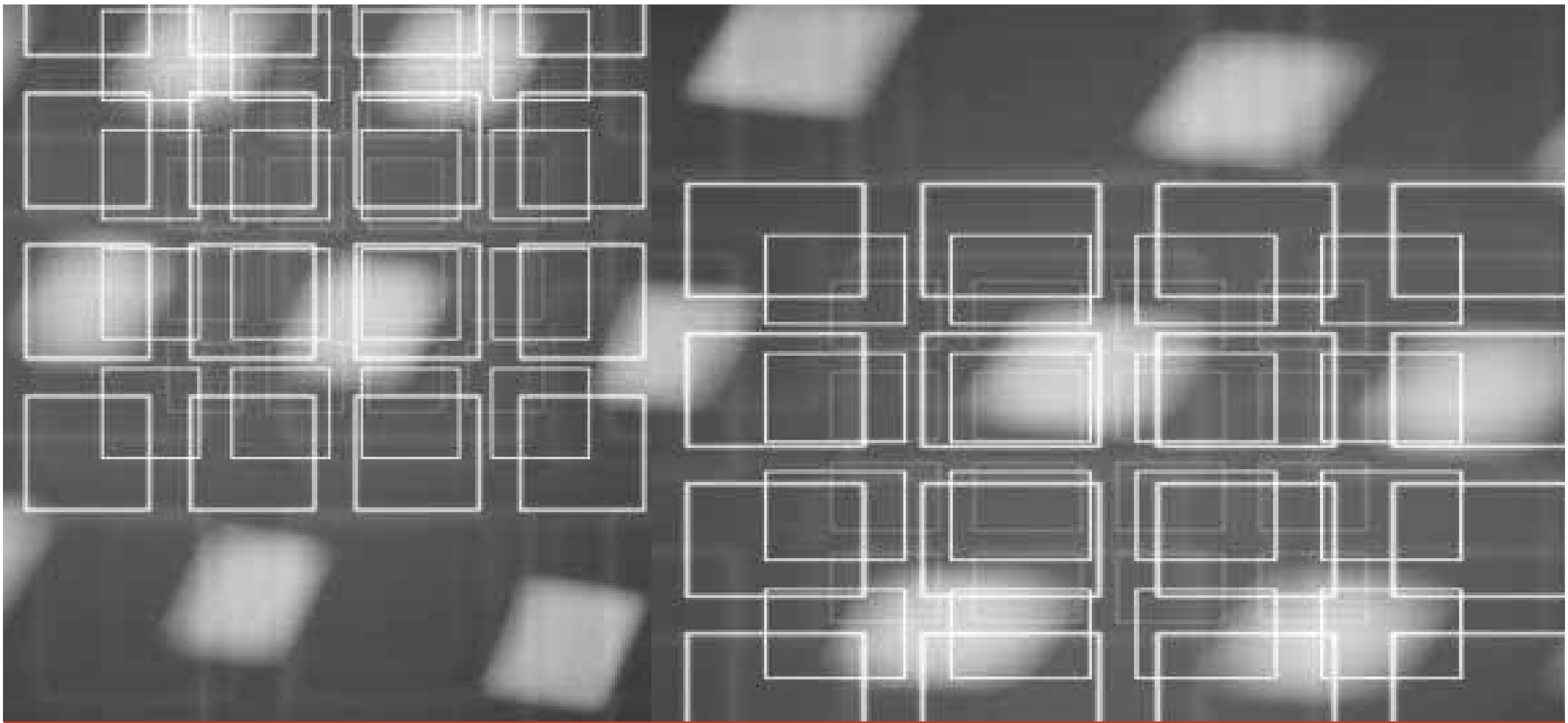
SR2004 PSA Target	There is no PSA target for Objective VII, assessment is based on overall progress.
Performance Indicator	N/A

Commentary	**On course** Key achievements include: • Code of Good Practice on Corporate Governance in Central Government Departments published July. Drawing on the private sector Combined Code, this guides departments on working through Boards to improve financial management to better deliver Ministers' objectives. • Treasury response to Public Accounts Committee (PAC) Report on 'Managing Resources' published July highlights progress in financial management improvement and sets out future agenda. • Department by department reviews on the financial management effectiveness of departments. Each has resulted in an agreed 'action plan' with the department concerned. • Core Financial Management skills – in the Professional Skills for Government agenda, competencies for all Grade 7 civil servants up to board level agreed. Stock-take of departmental finance training completed and improvements now in hand. • Gateway and experience standards for Finance Professionals agreed, with cross-government working groups initiated on (a) recruitment of graduate trainee accountants and (b) career development. At 30 November 2005, 60 per cent of departments had professionally qualified Finance Directors. • Financial Reporting Manual (FreM) published in April – brings together accounting guidance for departments, non-departmental public bodies (NDPBs) and trading funds for the whole UK. • COINS – the single data system for collecting financial information from departments for Treasury and ONS is going live on a phased basis from June 2005 to March 2006. • Progress report on Whole of Government Accounts published with PBR. Work initiated on 'dry run' consolidations for local authorities and NHS bodies building on central government processes.
Quality of data systems	N/A

Objective VIII: Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies

SR2004 PSA Target	There is no PSA target for Objective VIII, assessment is based on overall progress.
Performance Indicator	N/A

Commentary	**On course** While this objective has no related PSA target, there has been a significant programme of activity, building on existing measures such as the climate change levy, aggregates levy, landfill tax, fuel duty differentials and environmental reforms of vehicle excise duty and company car tax. The Pre-Budget Report 2005 provided an update on key developments over the reporting period, announcing support for alternative sources of energy and further measures to improve energy efficiency. This included: £10m for technology demonstrations under DTI's Carbon Abatement Technologies Strategy; £35m for the Carbon Trust to support energy-saving in the business and public sectors; and further details of the Government's Green Landlord Scheme following informal discussions with stakeholders over summer 2005. The joint Defra/HMT Energy Efficiency Innovation Review was also progressed – and published at Pre-Budget Report 2005 – informing work on the Government's wider climate change programme review. In addition, in order to understand more comprehensively the nature of the economic challenges and how they can be met, in the UK and globally, the Chancellor announced on 19 July 2005 that he had asked Sir Nicholas Stern to lead a major review of the economics of climate change. Work on the feasibility study and consultative process announced at Pre-Budget Report 2004 for a Renewable Transport Fuels Obligation was also progressed, leading to an announcement in November that the Government would require 5 per cent of all UK fuel sold on UK forecourts to come from a renewable source by 2010. There has been further work on progressing the inclusion of aviation in the EU Emissions Trading Scheme (EU ETS) by 2008 or as soon as possible thereafter – a UK Presidency objective – and the EC issued a Communication on addressing the climate impacts of aviation in late September. Domestically, presentations for phase two of the EU ETS continued with a consultation in July, and a further consultation on the draft national allocation plan is due in the new year.
Quality of data systems	N/A



ANNEX B

PERFORMANCE AGAINST OUTSTANDING CSR1998 PSA TARGET

Objective 4

Increase the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, competition, innovation, enterprise, better regulation and increased employability

CSR1998 PSA Target	(xiv) Secure an increase in the number of successful high growth business start-ups (joint target with the Department of Trade and Industry).
Performance Indicator	The number of VAT registered firms with a turnover of over £1 million and/ or 10 or more employees four years after registering for VAT.

Commentary

On course

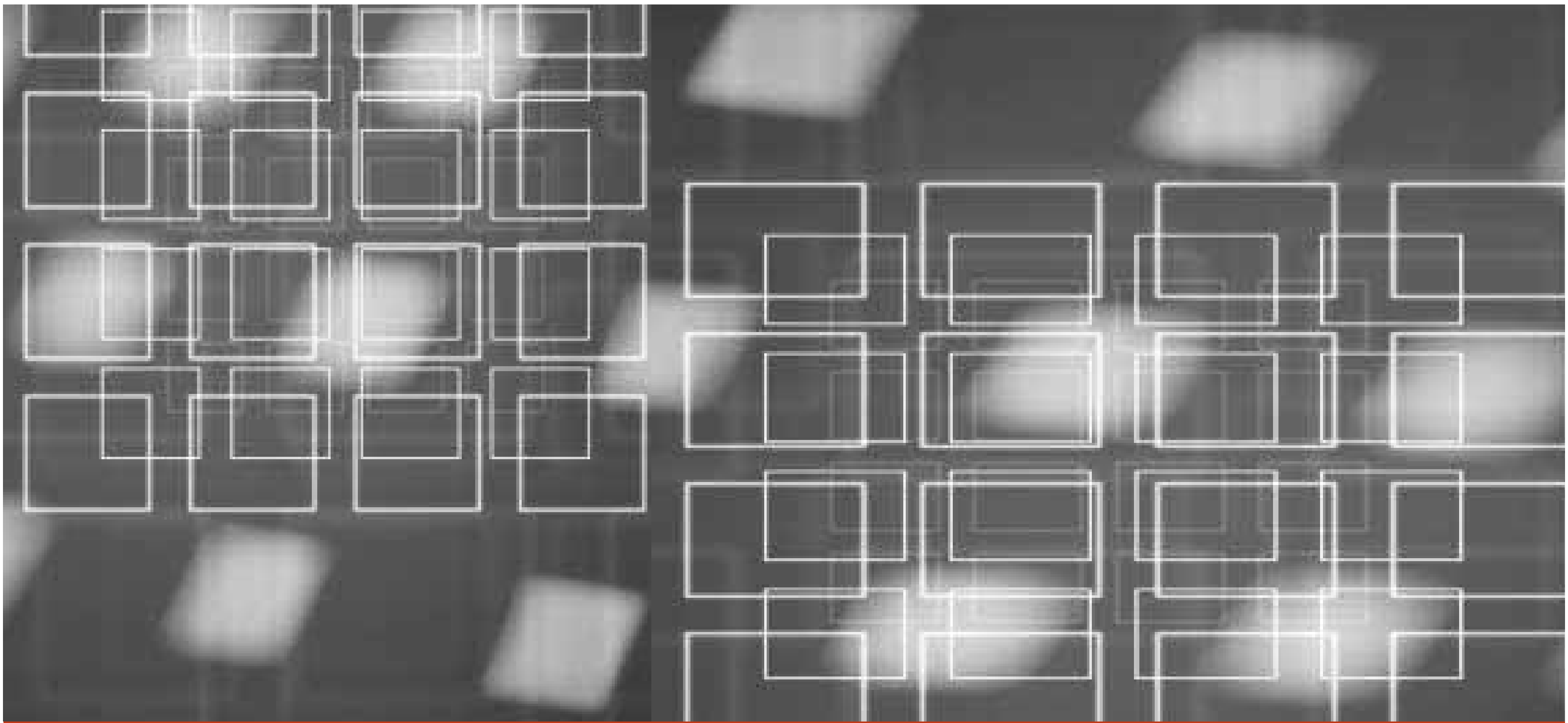
Over the whole period, around 7 per cent of all new VAT registrations become high-growth start-ups. Although the provisional 2005 data are lower than the 2004 figure, the proportion of this total which are high growth has increased slightly.

High Growth start-ups to 2005

Four years after registration	Number of businesses defined as high-growth start-up, (VAT registered 4 years previously)
1998	12,300
1999	11,800
2000	11,100
2001	12,200
2002	12,200
2003	12,300
2004	13,400
2005	12,800 (provisional)

Quality of data systems

Performance against this target is measured through data supplied by the Small Business Service.



ANNEX C

PERFORMANCE AGAINST HM TREASURY GROUP SR2004 EFFICIENCY TARGET

C1 The Treasury Group (including the Office of Government Commerce (OGC) and Debt Management Office (DMO)) published its Efficiency Technical Note in October 2004[1] committing it to securing £17.7 million of efficiencies by 2007-2008 (equivalent to 7.5 per cent of the Treasury Group's Departmental Expenditure Limit (DEL)). The 'core' Treasury will deliver £11.9 million of efficiencies, the OGC will deliver £4 million, the DMO will deliver £1 million and OGCbuying.solutions will deliver £0.8 million.

C2 Subsequent to the publication of the efficiency technical note, and as the Group's plans to deliver its efficiency commitments have been developed in more detail, a further £0.9 million of efficiencies have been identified in productive time which will be delivered by OGCbuying. solutions by 2007-08. This brings the total amount of efficiencies planned over the 2004-2008 period by OGCbuying.solutions to £1.8 million and for the Treasury Group to £18.7 million.

Treasury Group - Efficiency plans: summary progress to date

£million	Target 2007-08	Progress to date (October 2005)
Core Treasury	11.9	4.7
OGC	4.0	1.0
OGCbuying.solutions	1.8	0.8
DMO	1.0	0.5
Total	**18.7**	**7.0**

CORE TREASURY

Efficiency Plans and Progress to Date

C3 The core Treasury's efficiency plans focus on four areas:

- policy resources which are better focused on delivering our PSA targets effectively and efficiently;
- a policy resource that is able to respond more flexibly to new priorities;
- high quality, value for money corporate services aligned with the front-line directorates within the organisation; and
- a best practice procurement strategy that delivers value for money.

C4 These now translate into three specific workstreams against which performance is measured.

Policy, Funding and Regulation (PFR) – Directorate Budgets & Corporate Services

Plans: £5 million efficiencies by 2007-08;

Progress to October 2005: £1.5 million.

C5 This workstream focuses on how we can deliver our policy objectives and corporate services more effectively, and includes reducing both staff and non-staff costs in order to deliver £5 million of efficiencies by 2007-08.

C6 Within front line directorates, activities include: reviewing team and management structures; and upskilling policy functions, for example through encouraging better use of project management techniques and increasing delivery of policy briefing through alternative channels (e.g. through the Treasury intranet).

C7 Within corporate services, we are undertaking a major restructuring of our Human Resources (HR) function; restructuring our Information Services (IS) and reviewing IT procurement; automating wherever practicable our financial processes and sharing services across the Treasury group; delivering a best practice, value for money procurement strategy; improving the percentage of purchases made through central contracts and improving management information on procurement; maximising revenue through increased occupancy of the Treasury building by other government departments.

[1] Along with other government departments, the Treasury published a revised ETN alongside PBR 2005

Policy, Funding and Regulation – Strategic Reserve

Plans: £4 million efficiencies by 2007-08 (new outputs from same inputs);

Progress to October 2005: £3 million.

C8 The Strategic Reserve, which rises in value to £4m per annum by 2007-08, is financed by savings contributed from directorate core budgets, and is allocated by the Board exclusively for new policy priorities as they emerge during the 2005-08 period.

Programme

Plans: £2.9 million efficiencies by 2007-08;

Progress to October 2005: £0.2 million.

C9 The programme workstream will secure £2.9 million of efficiencies by 2007-08. Activities to support this include efficiencies secured through improvements to services provided by the Royal Mint (such as the production of coinage), and those provided by the Bank of England (such as reserves management), along with outsourcing the Treasury Group's Gilts Registration activities to a private sector provider (this has now gone live and is managed by Computershare).

OFFICE OF GOVERNMENT COMMERCE (OGC)

Efficiency Plans

C10 Work continues on the 11 workstreams identified to deliver OGC's efficiency targets. These will help all OGC service areas.

C11 Restructuring Corporate Services will save £1.5m by 2007-08. The workstreams focus on Programme Support; reducing travel and subsistence costs (increasing the use of video conferencing where appropriate); streamlining communications; delivering efficiencies in administrative support; HR service efficiencies; and gains through shared services.

C12 Securing better value in Procurement will save £0.4 million and targets shared contracts (collaboration and aggregation) and smarter procurement (e-commerce and value for money deals).

C13 Improving resource utilisation through Productive Time (£2.1 million) addresses: use of consultants; workspace provision; electronic information management; and simplifying working practices.

Progress to Date

C14 OGC is on track to meet the target £4 million savings by 2007-08. Total verified savings for 2004-05 were £1 million, which were higher than anticipated. Examples of these savings are the £0.1 million saved through more efficient use of workspace, £0.2 million saved by the creation of a single programme office and £0.3 million saved in procurement.

C15 The milestone for 2005-06 is £1.5 million. Savings that have been identified as contributing to this target include £0.4 million from procurement.

OGCbuying.solutions

Efficiency plans

C16 OGCbuying.solutions has now committed itself to delivering a revised target of annual efficiencies of £1.8 million by 2007-08. Its plans focus on three key workstreams:

- productive time – with plans to secure £0.9 million of productive time savings by continuing to reduce the ratio of internal costs to value for money improvements;
- procurement – with plans to secure £0.5 million of procurement savings per annum through the more efficient purchase of goods and services; and
- relocation - with plans to secure £0.4 million through the relocation of its existing operation in London to Liverpool.

Progress to date

C17 As of September 2005, OGCbuying.solutions has secured £0.8 million of efficiency savings through:

- £0.45 million of productive time savings through an improvement in the ratio of internal costs to public sector value for money improvements;
- £0.35 million of procurement savings through the reduction in the cost of delivery of some of its support services; and
- the telephony service will have relocated to Liverpool by the end of 2005-06 (see below under Treasury Group Headcount and Relocation Targets).

UNITED KINGDOM DEBT MANAGEMENT OFFICE (DMO)

Efficiency Plans

C18 The DMO has committed to delivering annual efficiencies of £1 million by 2007-08. The efficiencies will be achieved as follows:

Corporate Services

C19 The DMO has centralised some business activities – such as settlement, accounting and preparation of management information – to those teams within the agency with a comparative advantage in such work. This workstream also includes migration of processes to the DMO's core systems that have hitherto been undertaken on legacy systems. This will generate annual savings of £0.3 million.

Procurement

C20 The DMO will save £0.6 million by securing better value for money in Procurement. Procurement saving initiatives include negotiating supplier price reduction in specific business areas and investment in new technology that will be easier to maintain.

Transaction processing

C21 The DMO will generate annual savings of £0.1 million by bringing in-house a transactional processing financial service that it currently out-sources to an agent.

Progress to date

C22 The DMO is on track to secure its target efficiency savings by 2007-08. Savings initiatives successfully completed to date include:

- reduced banking costs resulting from the dematerialisation of sterling Treasury Bills saving £0.3 million annually; and
- reduced London Stock Exchange listing fees securing annual savings of £0.2 million.

TREASURY GROUP HEADCOUNT AND RELOCATION TARGETS

C23 In addition, to support the delivery of its efficiency plans, the Treasury Group plans a reduction in headcount of 150 full time equivalent staff over the SR2004 period. This reduction will be met by core Treasury. At October 2005, we are on track to meet this plan with 119 reductions achieved in core Treasury.

C24 In response to the Lyons Review, the Treasury committed to relocating 26.5 posts out of London by 2007-08. We are on track to meet this commitment: the Office of Government Commerce has so far relocated six posts from London to Norwich, with one further move proposed before the end of this financial year, and plans to transfer up to 35 posts from central London, as natural recruitment opportunities occur; and (as noted above) OGCbuying.solutions will relocate 15 posts from London to Liverpool by April 2006.

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