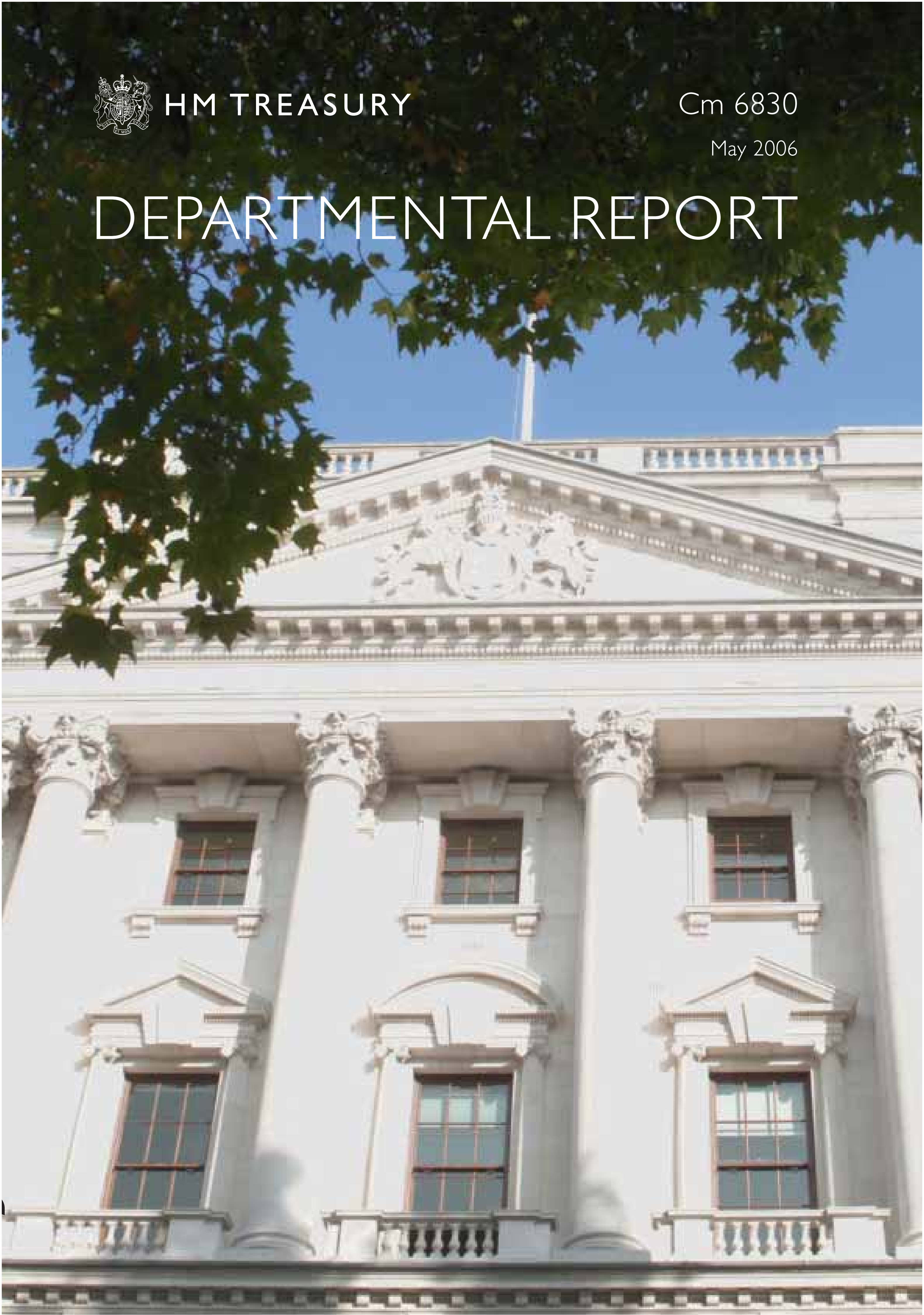
HM TREASURY

Cm 6830

May 2006

DEPARTMENTAL REPORT



This document is part of a series of Departmental Reports (Cm 6811 to Cm 6838) which, along with the Main Estimates 2006-07, the document Public Expenditure Statistical Analyses 2006 and the Supplementary Budgetary Information 2006-07, present the government's expenditure plans for 2005 to 2008.

HM TREASURY

Departmental Report 2006

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

May 2006

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Foreword

By the Chancellor of the Exchequer, the Rt Hon Gordon Brown MP

The Government's objective is to build a strong economy and a fair society, where there is opportunity and security for all:

- **Maintain economic stability** – the Government's macroeconomic framework has locked in stability with the economy entering an unprecedented tenth year of growth and outperforming many of its major competitors.

- **Increase employment opportunities for all** – 75 per cent of people - 28,840,000 people - are now in work with 171,000 jobs created in the last year and employment reaching record levels.

- **Build a fairer society** – reforms since 1997 mean the average pensioner household is £1,500 a year better off, with the poorest third £2,050 better off; and families with children will be, on average, £1,500 a year better off, while those in the poorest fifth will be, on average, £3,400 better off.

- **Deliver high-quality public services** – over 1 million adults have improved their reading, writing and maths skills, more young people are benefiting from higher education and, since 1997, there have been 662,000 more operations and 1 million more elective admissions each year. Alongside these significant improvements, efficiency savings of £6.4 billion have already been achieved.

In 2005 Britain also held the presidencies of both the G7 and the EU. We have been involved in the fight against terrorist financing and we have used our Presidency of the G7 to make substantial progress on international development, on tackling global poverty, securing the largest debt write-off in history and the doubling of aid to Africa to help meet the Millennium Development Goals – and our Presidency of the EU to reform and prepare for the global economic challenges which Europe faces.

The Government will also be conducting a second Comprehensive Spending Review (CSR), reporting in 2007. A decade on from the first CSR, the review will assess what further investments and reforms are needed to equip Britain for the global challenges of the decade ahead.

We will continue to work hard to address all issues that arise. Without the hard work of the dedicated staff in the Treasury and its executive agencies and offices, it would not have been possible to deliver the achievements set out in this report. On behalf of all the Treasury Ministers, I would like to thank our officials for their dedication and commitment in public service of our country.

Gordon Brown

Executive Summary

AIM AND OBJECTIVES

The Treasury is the United Kingdom's (UK) economics and finance ministry. It is responsible for formulating and implementing the Government's financial and economic policy. Its aim 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.

In order to achieve this aim, the Treasury has eight objectives, set under the 2004 Spending Review (SR2004). These are listed below, and can be broadly categorised under four main headings:

Maintaining Stability at Home and Overseas

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

Objective V: 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.

Raising Trend Growth

Objective II: **Increase the productivity of the economy** and expand economic and employment opportunities for all (part 1 of Objective II)

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

Promoting Fairness and Opportunity for All

Objective II: Increase the productivity of the economy and **expand economic and employment opportunities for all** (part 2 of Objective II)

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

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

Delivering High Quality Public Services

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

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

Contributions to performance against these objectives are made from across the Treasury Group[1], including UK Debt Management Office (DMO) mainly to Objectives I and VI, and Office of Government and Commerce (OGC) to Objective VI.

ACHIEVEMENTS IN 2005-06

The Treasury has 10 PSA targets that were set under SR2004. Two of these targets have a number of parts (target 8 and target 9). Currently the Treasury is on course to meet 7 targets fully, two targets are not yet assessed as the data is not available and one target shows slippage on two of its four elements.

The main achievements in the delivery of the Treasury's objectives in 2005-06 have been as follows:

Maintaining Stability at Home and Overseas

- The UK macroeconomic framework has continued to deliver domestic stability, and has ensured that volatility in the UK economy is at historically low levels and is now the lowest in the G7. UK Gross Domestic Product (GDP) has expanded for 55 consecutive quarters, illustrating the resilience of the UK economy.

- Inflation has remained close to the target of 2 per cent and market expectations for the next 10 years predict inflation will remain close to target in the future.

- Public sector net debt is projected to remain below 40 per cent of GDP in every year of the economic cycle. Therefore, the Government meets its sustainable investment rule, while continuing to borrow to fund increases in long-term capital investments in public services. The current budget shows an average surplus as a percentage of GDP over the current economic cycle ensuring the Government is meeting the golden rule.

- The UK Presidency of the G8 led to a package of measures to tackle poverty worldwide. These included:

    - o agreement by European Union (EU) Finance Ministers to reach the long-standing United Nations (UN) target to spend 0.7 per cent of national income on

[1]The Treasury Group consists of the core Treasury along with the Office of Government Commerce and the UK Debt Management Office.

aid by 2015. This means that by 2010, the amount of aid from the EU will double from around $40 billion a year to over $80 billion;

- o endorsement of the Multilateral Debt Relief Initiative, which will lead to the cancellation of 100 per cent of outstanding obligations of Heavily Indebted Poor Countries (HIPC) to the International Monetary Fund (IMF), World Bank and African Development Bank. For non-HIPCs, the UK will finance its share of the 100 per cent multilateral debt service relief; and
- o the launch of the International Finance Facility for Immunisation.

Raising Trend Growth

- The UK continues to make real progress on closing the productivity gap with its key competitors – the UK is the only member of the G7 not to have experienced an increase in its productivity gap with the US since 1997. The gap with France has halved over the same period, the gap has closed with Germany and the UK is leading Japan by around 11 percentage points[2].
- During 2005-06, the Treasury has taken a number of steps to maintain the momentum on productivity, including launching a package of reforms in Budget 2006[3] to boost inward investment, further reforms to reduce the regulatory burden on business, further promotion of science, innovation and skills, and establishing a new International Business Advisory Council to advise the government on the challenges of globalisation.
- At a UK regional level, progress on narrowing the gap in growth rates between the regions continues to be encouraging – partly due to strong employment growth in the North.
- Against the current world backdrop, ensuring the right frameworks are in place to respond to financial crises and major operational disruption is vital, and the Treasury Group has continued to develop these as part of the tripartite authority with the Bank of England and the Financial Services Authority. Alongside this, the Treasury has maintained its focus on disrupting the financing of terrorism.
- The UK presidencies of the EU and the G7 in 2005 enabled the Treasury to make substantial progress in a number of financial services issues, including:
  - o the European Commission's White Paper on Financial Services Policy 2005-2010, which strongly reflects UK policy priorities of better regulation and enforcing and implementing legislation already agreed, and has a high level of support in the Council; and
  - o the declaration on future priorities for the EU-US financial markets dialogue, which reaffirmed both sides' commitment to minimising the regulatory barriers and ensuring that transatlantic markets can work as efficiently as possible.

Promoting Fairness and Opportunity for All

- The labour market has performed strongly in recent years – particularly in those regions and groups which were previously considered to be most disadvantaged. Chapter 4 of Budget 2006 sets out the direction for reform of labour market support and benefits policy that builds on this strong performance.
- The Treasury remains committed to supporting the youngest and oldest members of society. The number of children living in poverty was reduced by 0.7 million between 1998-99 and 2004-05. Budget 2006[3] announced a number of measures to help further families with children, including a commitment to uprate the child element of the Child Tax Credit at least in line with earnings until the end of this Parliament. Further measures have also been announced to help pensioners heat their homes and travel freely on off-peak buses. Between 1996-97 and 2004-05 over 1 million pensioner households were lifted out of relative low income poverty and 2.1 million pensioner households were lifted out of absolute low income poverty.
- Continuing the Government's commitment to promote sustainable development and the protection of the environment, Budget 2006 announced measures to support energy efficiency in all sectors of the economy – these included reforms to Vehicle Excise Duty to further incentivise consumers to buy cleaner greener cars.

Delivering High Quality Public Services

- The Government will be conducting a second Comprehensive Spending Review (CSR) in 2007, assessing what further investments and reforms are needed to equip the UK to respond to the global challenges of the decade ahead. Budget 2006 announced

[2] All measured on an output-per-worker basis

[3] Budget 2006 can be found on the Treasury website at http://www.hm-treasury.gov.uk

early spending settlements for the Home Office, the Department for Work and Pensions, HM Revenue and Customs, HM Treasury Group and the Cabinet Office which embed ongoing efficiency savings into their medium-term expenditure plans and lay the foundations for a CSR focused on meetings these global challenges.

- The Treasury has made significant progress on the Financial Management change agenda, including:
    - the publication in July 2005 of the Corporate Governance Code for central government departments;
    - the completion of a programme of 45 reviews of the effectiveness of financial management in departments, and agreement in each case to action plans for improvement; and
    - a substantial increase in the numbers of departmental Finance Directors who are professionally qualified (60 per cent at end March 2006).
- The Treasury continues to work with the Prime Minister's Delivery Unit and the Office of Government Commerce to support departments in providing better and more efficient public services, including through releasing efficiency gains to the front-line. Budget 2006 announced that departments and local authorities had reported provisional annual efficiency gains totalling £6.4 billion by the end of December 2005. The Budget also announced 40,400 gross workforce reductions, including 7,150 reallocations to the frontline and 6,600 relocations out of London and the South East.

Managing Ourselves

The Treasury, in common with the rest of Government, is focused on working more effectively and efficiently. In this context, a major corporate priority is increasing professionalism. Even as overall staffing levels have fallen, the number of professionally trained economists in the Treasury has risen from 60 to 140 in the past 25 years. Around 20 per cent of policy staff are professional economists, increasing to 30 per cent of all Senior Civil Service staff. The Government Social Research Unit transferred from the Cabinet Office to the Treasury in March 2006, meaning that for the first time the professional units for economics and social research are located together. The department is also implementing the civil service wide Professional Skills for Government agenda, to ensure it possesses the necessary skills and experience required by a high performing finance and economics ministry.

The Treasury's aim is to not only deliver its objectives, but deliver them in the most efficient and effective manner, supported by the Treasury Group's efficiency plans, set in SR2004. Significant progress has been made towards achieving the efficiency targets for 2008, with £8 million having been saved by January 2006.

Current initiatives underway to review the Treasury's workforce strategy and knowledge management aim to ensure the department can effectively harness more depth and breadth of experience within its workforce, and support that workforce by ensuring it has the right information systems in place to manage corporate knowledge.

In addition, the 2007 Comprehensive Spending Review settlement for the Treasury Group, announced in Budget 2006, will build further on the savings already achieved. The Treasury Group is already putting in place plans to implement this settlement – including undertaking a number of reviews of its policy activities and corporate overheads, the results of which will enable it to identify opportunities for efficiencies and rationalisation. The Treasury Group is also continuing to explore the potential to share corporate services across the group to provide further savings.

CHALLENGES AND PRIORITIES FOR 2006-07

The Treasury has identified five key policy priorities for the next 12 months:

- maintaining sound public finances;
- maintaining stable tax revenues – both through effective delivery and through improved coordinated policy making;
- ensuring the tools and expertise are in place to drive a more effective and efficient allocation of public money;
- promoting domestic productivity in the context of international trade and competition, developing the existing productivity agenda yet further and linking it to key challenges from growing economies such as China and India; and
- addressing poverty domestically and internationally – ensuring that the G8 debt deal sticks and that the Government continues to deliver on its domestic commitments on child poverty.

To achieve these priorities, the Treasury will need to focus on professionalism in delivery and working flexibly, effectively and efficiently, including in collaboration with our key stakeholders.

1 Context and Organisational Structure

Includes:

- Context
- Ministerial Responsibilities
- Departmental Structure

CONTEXT

1.1 This report is an account of the Treasury's use of resources in 2005-06. The Treasury's 2004 Public Service Agreement (PSA) covering the period 2005-08 sets out an aim and objectives for which those resources were allocated, and targets for measuring progress towards achieving the aim and objectives. This report focuses on how these targets are being achieved within the agreed resources, and highlights planned activities for the coming financial year.

1.2 This report also contains a summary of the performance of the Treasury's offices: the UK Debt Management Office (DMO) and the Office of Government Commerce (OGC). More information on their objectives and performance can be found on their websites[1].

1.3 The 2004 Spending review (SR2004) set PSA targets for the period 2005-08. These targets in most cases left unchanged, or reinforced and refined, targets set for the periods 2003-06 under the 2002 Spending Review (SR2002) and 2001-04 under the 2000 Spending Review (SR2000). The reporting for these targets is combined in Annex AI. Annex A1 also sets out the outstanding Service Delivery Agreement targets (SDAs). This is the final year of reporting against these SDAs. The Treasury also has one outstanding PSA target set for the period 1999-2002 under the 1998 Comprehensive Spending Review (CSR1998). Performance against this target is in Annex A2. The remaining SDA targets which relate to the corporate functions of the department are shown in Annex A3.

1.4 This is the second report against the PSA targets set in SR2004, the first was given in the 2005 Autumn Performance Report.

Performance Information

1.5 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, in the three-year time frame covered by the spending plans. Some 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.

1.6 Each PSA target is underpinned by a Technical Note[2] which sets out how the target is measured, how success is defined, the sources of the relevant data, and any other relevant information such as geographic or demographic coverage.

Progress

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

- Annex AI – reports combined performance against SR2004 targets (2005-08), SR2002 targets (2003-06) and SR2000 targets (2001-04) and also the outstanding SDA targets;
- Annex A2 – reports performance against the outstanding CSR1998 PSA target (1999-2002); and
- Annex A3- reports performance against the outstanding SR2000 SDA corporate targets.

1.8 The report also includes:

- Annex B - HM Treasury Group public expenditure data including core tables; and
- Annex C- HM Treasury Group efficiency plans and progress.

[1] DMO http://www.dmo.gov.uk and OGC http://www.ogc.gov.uk
[2] http://www.hm-treasury.gov.uk

1.9 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 - 2004 Spending Review (SR2004)

The overall aim of the Treasury for the SR2004 period (2005-2008) 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**.

Table 1.1: HM Treasury's objectives (2005-08)

Maintaining stability at home and overseas

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

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 (Objective V)

Raising trend growth

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

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

Promoting fairness and opportunity for all

Increase the productivity of the economy and **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 the public services (Objective VI)

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

CHANCELLOR OF THE EXCHEQUER:
RT HON GORDON BROWN, MP

The Chancellor has overall responsibility for the work of the Treasury. He is supported by the Chief Secretary to the Treasury: the Rt Hon Des Browne, MP, the Paymaster General: the Rt Hon Dawn Primarolo, MP, the Financial Secretary: John Healey, MP, and the Economic Secretary: Ivan Lewis, MP.

CHIEF SECRETARY*
TO THE TREASURY:
RT HON DES BROWNE, MP

Responsibility for public expenditure including:

- Spending Reviews and strategic planning;
- in-year control;
- public sector pay and pensions;
- efficiency in public services;
- capital investment; and
- public delivery and PSA targets.

Treasury interest in Devolution;

Responsibility for financial services including strategic oversight of banking, financial services and insurance working with the Economic Secretary; and

Assist the Chancellor where necessary on European issues.

* As from 5th May 2006, Stephen Timms is Chief Secretary and Ed Balls is Economic Secretary

PAYMASTER GENERAL: RT HON DAWN PRIMAROLO, MP

- Strategic oversight of the UK tax system as a whole including direct, indirect and corporate taxation, capital gains tax, inheritance tax and VAT;
- Departmental Minister for HM Revenue and Customs;
- Overall responsibility for the Finance Bill;
- European and international tax issues and assist where necessary on European issues;
- Tax credits;
- Treasury interest in childcare issues;
- Welfare reform group (welfare fraud); and
- Support to the Chief Secretary on public spending issues and selected Cabinet Committees.

FINANCIAL SECRETARY TO THE TREASURY: JOHN HEALEY, MP

- Enterprise and productivity including small business taxation and support to the Chancellor on economic reform;
- Competition and better regulation;
- Science policy, including implementation of the 10 year science strategy and the R&D tax credit;
- Regional economic policy;
- Urban regeneration and social exclusion including housing and planning;
- Environmental issues including transport taxation and lorry-road user-charge;
- Excise duties and gambling;
- Public/Private Partnerships including Private Finance Initiative, and Partnerships UK;
- Ministerial responsibility for the Office of National Statistics, the Royal Mint and Departmental Minister for HM Treasury;
- Working with the Chief Secretary with responsibility for Office of Government Commerce and procurement policy;
- Support to the Chief Secretary on public spending issues and selected Cabinet Committees;
- Assist where necessary on European issues; and
- Working with Paymaster General on the Finance Bill.

ECONOMIC SECRETARY* TO THE TREASURY: IVAN LEWIS, MP

- Working with the Chief Secretary to the Treasury on financial services including: banking, insurance, and the Financial Services Authority and financial services tax issues (such as ISAs, taxation of savings, stamp duty, insurance premium tax and pensions);
- Personal savings policy;
- Foreign exchange reserves and debt management policy, with responsibility for National Savings & Investments, the UK Debt Management Office and the Government Actuary's Department;
- Support to the Chancellor on EU and wider international finance issues;
- EMU preparations;
- The voluntary sector, charities, including taxation;
- Corporate Social Responsibility;
- Support to the Chief Secretary on public spending issues and selected Cabinet Committees; and
- Working with the Paymaster General on the Finance Bill.

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2 Maintaining Stability at Home and Overseas

Includes:

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

PSA Target 2 - Inflation

PSA Target 3 - Sound Public Finances

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

PSA Target 8(i) - Global Economy

PSA Target 8(ii) - Heavily Indebted Poor Countries/Millennium Development Goals

PSA Target 8 (iii) - Lisbon Goals

Objective 1 Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the code of fiscal stability

2.1 There are two PSA targets relating directly to this objective:

PSA 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)); and

PSA 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.

PSA 2 – INFLATION

Performance against target

2.2 During the period January 2005 to January 2006, CPI inflation was, in the majority of months, slightly below or above target, ranging from 1.6 to 2.5 per cent, as illustrated in Table 2.1. The Government is therefore **meeting** this target.

Table 2.1: Inflation performance 2005-06

	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06
CPI %	1.6	1.7	1.9	1.9	1.9	2.0	2.3	2.4	2.5	2.3	2.1	1.9	2.0

Delivery

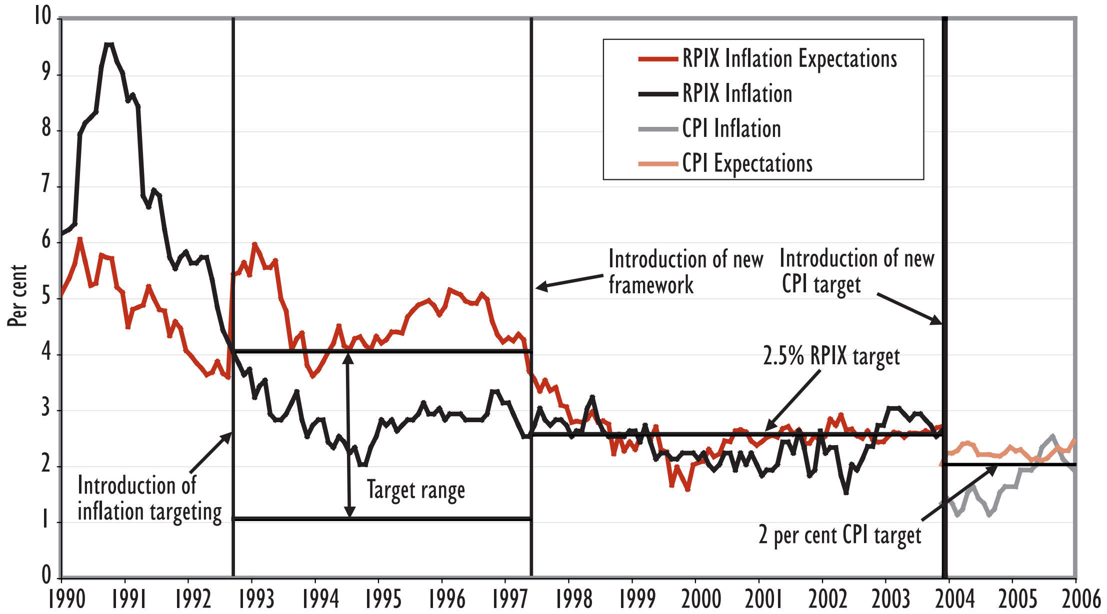
2.3 The Treasury seeks to deliver Objective 1 through its monetary policy framework which is designed to ensure low and stable inflation. The monetary policy framework is based on four principles:

- clear and precise objectives. The primary objective of monetary policy is to deliver price stability;
- full operational independence for the Monetary Policy Committee (MPC) in setting interest rates to meet the Government's inflation target;
- openness, transparency and accountability, which are enhanced through, for example, the publication of MPC members' voting records and prompt publication of the minutes of monthly MPC meetings; and
- credibility and flexibility. The MPC has discretion to decide how and when to react to events, within the constraints of the inflation target and the open letter system.

Achievements

2.4 Inflation has remained within one percentage point of the CPI target since the target was introduced in December 2003. Inflation is expected to remain close to target in the future with market expectations of inflation 10 years ahead remaining close to the CPI target of 2 per cent, as illustrated in Chart 2.2.

Chart 2.2: Inflation performance and expectations



Note: Inflation expectations are measured using Ten year ahead market inflation expectations

2.5 The domestic stability delivered by the UK's macroeconomic framework has ensured that volatility in the UK economy is at historically low levels and is now the lowest in the G7. Based on this stability, UK GDP has now expanded for 55 consecutive quarters. This continued economic growth illustrates the resilience of the UK economy in the face of sustained higher oil prices, weak demand in the euro area and a slowing housing market.

2.6 Objective I commits the Treasury to a macroeconomic framework that promotes stability. This has been achieved through transparent monetary and fiscal frameworks whose credibility is demonstrated by the fact that market expectations of inflation have remained around the inflation target since the introduction of these frameworks in 1997. Over the past year, employment has risen to record levels, while unemployment on both measures (ie claimant count and International Labour Organisation (ILO)) has remained close to its lowest levels for a generation, with claimant count unemployment remaining below 3 per cent.

Future Plans

2.7 The Treasury will continue to monitor the macroeconomic framework and set policies consistent with it. It will ensure that the framework continues to reflect best practice, including learning from the strengths and weaknesses of other countries' frameworks and considering the recommendations of international organisations and of academic and other bodies.

PSA 3 - SOUND PUBLIC FINANCES

Performance against target

2.8 Performance against this target in 2005-06 was as follows:

- public sector net debt was 36.4 per cent of Gross Domestic Product (GDP), below the 40 per cent ceiling of the sustainable investment rule; and
- the current budget since the start of the current economic cycle shows an average annual surplus up to 2005-06 of 0.1 per cent of GDP ensuring the Government is meeting its golden rule.

2.9 The Government is therefore **on course** to meet this target on the basis of cautious assumptions.

Delivery

2.10 The Treasury seeks to deliver Objective I by implementing and continuing to enhance the fiscal policy framework. The principles and key components of the fiscal policy framework are set out in the Code for Fiscal Stability. The Code requires the Government to state its objectives and the rules through which fiscal policy will operate. The Government's fiscal policy objectives are:

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

2.11 These objectives are implemented through two strict fiscal rules, reflected in PSA 3:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

2.12 In addition, the Treasury seeks to deliver Objective I by:

- continuously monitoring the state of the public finances to ensure that any risks to the target are identified as soon as they emerge, and by regularly updating, and publishing, forecasts of government revenues and spending in accordance with the provisions of the Code for Fiscal Stability, including cautious assumptions audited by the National Audit Office (NAO); and
- planning and controlling public expenditure within firm overall spending limits to meet the fiscal rules.

Achievements

2.13 The current budget shows an average surplus as a percentage of GDP over the current economic cycle, ensuring the Government is meeting the golden rule.

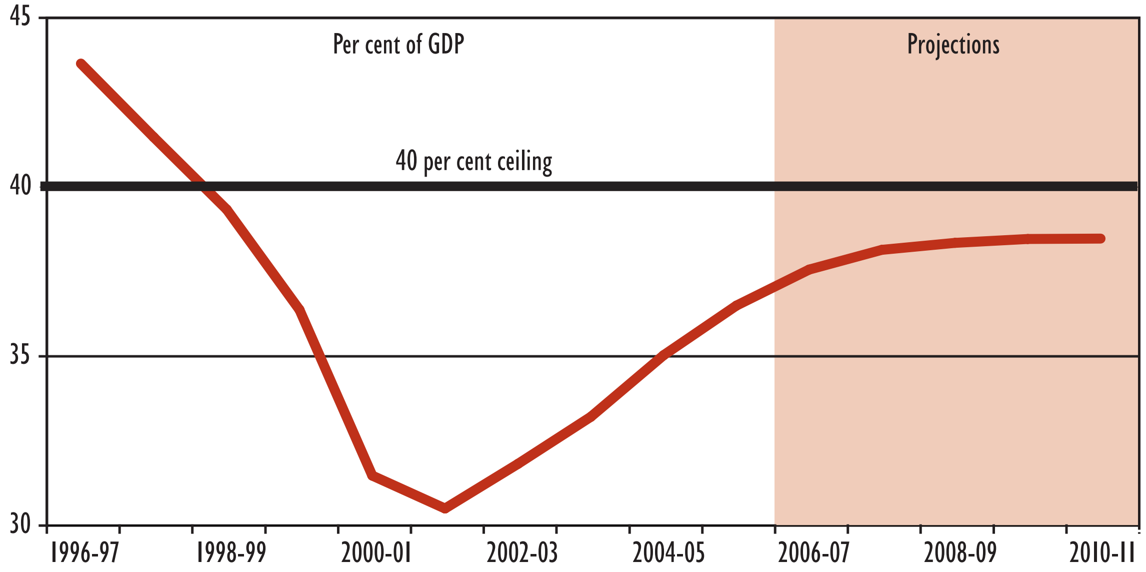
2.14 Public sector net debt will be maintained at below 40 per cent over the course of the economic cycle. Therefore the Government meets its sustainable investment rule while continuing to borrow to fund increased long-term capital investment in public services.

Future Plans

2.15 Budget 2006 confirmed that the Government will continue to ensure sound and sustainable public finances over the medium term:

- public sector net debt is projected to remain low, reaching around 38.3 per cent by the end of the economic cycle and stabilising at 38.4 per cent of GDP for the remainder of the projection period (see Chart 2.3); and
- the average surplus on the current budget since the start of the current economic cycle in 1997-98 is in balance or surplus in every year of the projection period. The current economic cycle is expected to end in 2008-09, which means the average annual surplus on the current budget would be 0.1 per cent of GDP.

Chart 2.3: Meeting the sustainable investment rule



Source: ONS and HM Treasury.

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

2.16 PSA target 8 relates specifically to this objective. It states that the Treasury will:

Promote increased global prosperity and social justice by:

- 8(i) 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.
- 8(ii)a 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
- 8(ii)b international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDG's).

  (NB target 8(ii) is a joint target with Department for International Development (DFID)).
- 8(iii) working with our European (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008.

PSA 8(i) - GLOBAL ECONOMY

Performance against target

2.17 The Treasury continues to be on **course** to meet this target. Under the codes and standards initiative, the IMF and the World Bank monitor observance by countries against 12 individual codes and standards, which act as benchmarks for good practice. It therefore aims to strengthen the international financial architecture and reduce the likelihood of financial crises. As of February 2006, 130 countries (over two thirds of the International Monetary Fund (IMF) membership) have now participated in the codes and standards initiative. This is up from 109 in June 2004, and 94 in June 2003. 825 individual assessments, reassessments and updates have been produced. This compares with 724 in April 2005 and 605 in April 2004. Three quarters of the assessments, reassessments and updates have been published.

Delivery

2.18 Delivery of this objective is achieved primarily through close and collaborative working relationships with the IMF and World Bank who, as noted above, assesses whether countries comply with the internationally agreed codes and standards of best practice in the international financial architecture. The UK holds a single seat at the Executive Board of the IMF and the World Bank whilst the Chancellor currently holds the chair of the International Monetary and Financial Committee (IMFC), the ministerial steering committee for the IMF. These both allow the UK to play an influential role in shaping the priorities of these institutions and gaining widespread acceptance of the importance of codes and standards in the international financial system. Furthermore, the UK's active membership of the G7 plays a vital role in taking forward the Treasury's international agenda.

Achievements

2.19 Progress made in increasing the number of countries participating in the codes and standards initiative continues to be steady, as outlined above.

2.20 The UK strongly supported the launch of the standards and codes initiative in 1999 as a key step in strengthening the international architecture following the capital account crises of the late 1990s. The UK has been a strong advocate of the initiative since then. As the lead UK department for relations with the IMF, the Treasury continues to work on a range of global prosperity issues, as outlined in HM Treasury's annual report to Parliament on the UK and the IMF[1]. Key achievements in 2005 include the completion of a review into how the IMF undertakes surveillance of financial sector issues and the creation of two new instruments for low income countries: the Exogenous Shocks Facility to provide assistance to countries experiencing external shocks and the Policy Support Instrument to provide Fund endorsement of country policies where Fund financing is not needed or wanted.

Future Plans

2.21 The UK will continue to use all formal and informal networks to advance further progress on the codes and standards initiative and to achieve the UK's international objectives at the IMF.

[1]Available on the HM Treasury website at: http://www.hm-treasury.gov.uk/documents/international_issues/international_institutions/int_ii_ukimf.cfm

PSA 8(ii) - This target is in 2 parts (joint target with the Department for International Development (DFID)):

PSA 8(ii)a HEAVILY INDEBTED POOR COUNTRIES (HIPC)

PSA 8(ii)b MILLENNIUM DEVELOPMENT GOALS (MDGs)

Performance against part a

2.22 The UK has championed the HIPC initiative, and real progress has been made with 28 countries having reached Decision Point by the end of 2005. Of these, 18 have already reached Completion Point and have received irrevocable debt relief. Of the remaining 10 countries currently at Decision Point, eight are expected to reach Completion Point in 2007 or before. Hence, despite slower than expected progress in some Decision Point countries, 26 countries are likely to have reached Completion Point by the end of 2007. Significant progress has also been made with the Multilateral Debt Relief Initiative (MDRI), which will provide 100 per cent cancellation on debts owed to the International Monetary Fund (IMF), World Bank and African Development Bank by post-Completion Point HIPCs, matching the 100 per cent bilateral relief already provided by countries such as the UK. The Treasury is on **course** to meet this target.

Performance against part b

2.23 The MDGs are challenging targets. In some regions there has been further good progress made, although overall progress is slower than expected. Therefore there is some **slippage** on this target. The situation in Sub-Saharan Africa is especially critical as it is currently on track to miss all the MDGs by 2015 if urgent action is not taken. 2005 was however a unique year in which the UK pushed the development agenda forward making full use of its Presidencies of both the G7, G8 and European Union (EU). This included the EU agreement to double aid by 2010, and the EU 15 to reach 0.7 per cent of Gross National Income (GNI) by 2015. Delivery of these commitments is crucial to providing the vital additional resources necessary to accelerate progress towards the MDGs.

2.24 The UK has therefore announced that the Government will spend at least $15 billion, or £8.5 billion, on aid for education over the next ten years. For the first time, the UK Government will enter into 10 year agreements with poor countries to finance 10 year education plans - locking in the long-term commitment vital to delivering high quality education for all. This £8.5 billion commitment compares to a figure of less than £2 billion over the last 10 years. The UK has also announced that it will provide an extra £100 million to the Fast Track Initiative over the next two years which represents a downpayment to meet our share of the current financing gap. Furthermore, the International Finance Facility for Immunisation (IFFIm) was launched on 9 September 2005 and the first bond issuance is expected in 2006.

Delivery

2.25 The Treasury has continued to work closely with DFID and other partners to support progress towards the MDGs. Last year, through the G8 and EU presidencies, the UK pressed strongly for immediate action on aid, trade and debt relief to help meet the MDGs, with Africa being one of the two UK priorities, given the particularly critical situation there for achieving the MDGs.

2.26 In July 2005 at Gleneagles, G8 Heads of State agreed a package of development measures which included: a substantial increase in aid and other resources to meet the MDGs; as much as 100 per cent multilateral debt relief for heavily indebted poor countries; to undertake a work programme on the International Finance Facility (IFF) and other financing mechanisms; and to ensure that the Doha Round of trade negotiations delivers substantial benefits to developing countries. The UK Government then continued to press for further action at the G8 and EU meetings, as well as at other international forums, later in 2005. This culminated in the following:

on aid:

- EU Finance Ministers agreed to reach the long-standing UN target of spending 0.7 per cent of national income on aid by 2015, with an intermediate EU target for Member States of 0.51 per cent Overseas Development Assistance (ODA)/GNI (0.17 per cent ODA/GNI for new member states) by 2010. This is expected to lead to an average EU aid spend of 0.56 per cent of national income by 2010, approximately a doubling of current EU aid from around $40 billion a year to over $80 billion a year.

- The G8 made additional aid commitments, which taken together with other donors' commitments, is expected to lead to an additional annual $50 billion of aid by 2010, compared with 2004.

on debt relief:

- Endorsement at the Annual Meetings of the World Bank and IMF in September 2005 of the Multilateral Debt Relief Initiative first agreed by G8 Finance Ministers in June 2005. The MDRI covers the cancellation of 100 per cent of outstanding obligations of HIPCs to the IMF, World Bank and African Development Bank (AfDB[2]). Donors would provide additional contributions to International Development Association (IDA) and the AfDF to offset dollar for dollar the foregone principal and interest payments of the debt cancelled, while the costs of fully covering IMF debt stock relief, without undermining the Fund's financing capacity, are being met by the use of existing available internal IMF resources. On top of this, the UK will finance its share of 100 per cent multilateral debt service relief on behalf of eligible non-HIPC countries for the concessional debts owed to the World Bank and the African Development Bank.

on trade:

- The Sixth World Trade Organisation Ministerial Conference took place in Hong Kong, on 13-18 December as part of the Doha Development Round. The progress made was limited and did not meet the UK's level of ambition. Agreement was reached to end all agricultural export subsidies by 2013; and for all developed countries to grant duty-free and quota-free market access to Least Developed Countries on 97 per cent of tariff lines by 2008. Negotiations are continuing with a view to achieving a comprehensive and ambitious outcome to the round by end 2006.

- The need for a fairer global trading system was a key message of the UK Presidency reflected in the communiqués of the G7 Finance Ministers in June 2005, the G8 Heads of State at Gleneagles in July 2005 and G7 Finance Ministers in December 2005. In the latter meeting a commitment was made to grant additional support for trade capacity building to help Least Developed Countries, particularly in Africa. G7 Finance Ministers stated that expenditure on aid for trade is expected to increase to $4 billion, including through enhancing the Integrated Framework. In the context of their shared commitment to double aid for Africa by 2010, agreement was reached to give priority to the infrastructure necessary to allow countries to take advantage of the improved opportunities to trade.

Achievements

2.27 Significant progress has been made through the EU agreement to double aid by 2010, and the EU 15 commitment to reach 0.7 per cent GNI by 2015, with half of the increase to go to Africa, and the launch of the IFFIm in September 2005. There has also been significant progress on the MDRI. At the IMF and World Bank Annual Meetings in September the G8 proposal for 100 per cent multilateral debt relief for HIPCs once they have reached Completion Point was agreed, and since then the IMF has moved quickly to implement the initiative. In January 2006, it began implementation of the MDRI with 17 HIPCs qualifying immediately, and 19 countries in total benefiting from debt relief from the IMF worth around $3.3 billion. Work also continues on the MDRI at World Bank and African Development Bank with implementation by these institutions of the MDRI expected later this year.

Future Plans

2.28 The Treasury will continue to work with partners, including DFID, civil society, business representatives and our international partners, to press for further action, and use the available international forums to:

- speed up progress towards the implementation of the MDRI at the World Bank and African Development Bank;

- encourage developing countries to develop ambitious and costed plans to achieve the MDGs;

- monitor countries' delivery on aid commitments, which are critical to achieving the MDGs;

- implement the IFFIm, and introduce a pilot for Advance Market Commitments for Vaccines; and

- develop plans, working with international and regional development banks, to aid energy efficiency in developing countries and scale up the provision of education.

[2] The cancelled debts will be those of the concessional lending arms of these institutions, that is from the International Development Association (IDA), and the African Development Fund (AfDF).

PSA 8(iii) – LISBON GOALS

Performance against target

2.29 At the Lisbon European Council in March 2000, Europe's leaders committed themselves to a ten-year programme of structural reform to improve growth employment prospects in the EU. Further progress has been made towards this objective over the past year. In March 2005, the European Council concluded the Union's mid-term review of the Lisbon strategy and agreed to refocus and prioritise Europe's economic reform strategy on the key actions needed to deliver higher growth and employment. These decisions follow and give further stimulus to existing reforms such as the opening up of new markets to competition, modernisation of the Community's competition and state aid rules, reforms to promote better regulation in Union, and the actions taken by many Member States to promote enterprise and innovation and establish greater labour market flexibility.

2.30 Despite this progress, there is **slippage** against this target. There remain significant risks that Europe will fail to realise the strategic ambitions of the Lisbon strategy and, in particular, to achieve its aim of delivering a 70 per cent employment rate by 2010. At just 63.3 per cent in 2004, EU employment remains well below the interim target of 67 per cent employment rate by 2005, while the EU's productivity gap with the US is widening.

2.31 A detailed assessment of the challenges facing Europe were set out in the 2005 Budget companion document, *Long-term global economic challenges and opportunities for Europe*[3], and in *Global Europe: Full Employment Europe*[4], published in October 2005.

Chart 2.4: GDP per person employed and employment rate

Source: Eurostat, structural indicators database, all data for 2004.

EU 15, Cyprus, Greece and Austria are forecast

[3]http://www.hm-treasury.gov.uk/media/A1D/6B/global_final_140305.pdf
[4]http://www.hm-treasury.gov.uk/media/093/BF/global_europe_131005.pdf

Delivery

2.32 The Treasury and other government departments continue to work with other EU Member States and institutions such as the European Commission to encourage structural economic reform at the national and Community level.

2.33 Action to advance the Lisbon goals requires further reform to increase the flexibility of the EU economy, by strengthening the drivers of productivity growth and improving the functioning of European labour markets. Details of the Government's approach to delivery, and of its specific priorities for reform, were set out in the Treasury's February 2005 report *Growth and Opportunity: Prioritising economic reform in Europe*[5].

2.34 Following the UK Presidency of the EU, the Government will continue to work with other Member States, including the Austrian and Finnish Presidencies, and the European Commission to deliver the necessary structural reforms to achieve growth and full employment. The Government's priority objectives include: establishing a more outward-looking Europe to meet the global economic challenge; further regulatory reform, to reduce the burden of new and existing EU legislation on business; and continued implementation of Member States' Lisbon National Reform Programmes.

Achievements

2.35 Strengthening economic reform in response to globalisation was a key priority of the UK Presidency of the EU. In autumn 2005, Member States submitted their first National Reform Programmes (NRP) setting out the policies they intend to pursue to meet the challenges of globalisation. In addition:

- agreement has been reached to simplify over 1400 EU rules and regulations, to withdraw 68 proposed EU regulations, to introduce a new competitiveness test for the impact of new EU regulations and to measure administrative burdens in all EU proposals;
- EU leaders met at Hampton Court in October 2005 and reached agreement on the need for priority action to promote innovation, tackle demographic challenges in the labour market, promote open and secure energy markets, and deliver high quality education across the Union;
- the ECOFIN Council of EU Finance Ministers released the first ever statement on the economic challenge of globalisation and the importance of structural reform in December 2005;
- on EU-US economic cooperation, the UK agreed three Presidency ECOFIN Conclusions in October supporting closer cooperation, hosted an inaugural EU-US Economic Ministerial in November at which a comprehensive action plan was agreed on all economic cooperation priorities, and agreed a joint EU-US financial services statement in December 2005 to determine the way forward for future cooperation on the Financial Markets Regulatory Dialogue; and
- the UK Presidency launched the first European Enterprise competition which rolled out the successful British annual competition across the whole EU.

Future Plans

2.36 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, including the current Austrian and forthcoming Finnish Presidencies. This work will continue to focus on strengthening the key drivers of productivity growth and improving the functioning of EU labour markets. As global competition strengthens, the Government will also press for additional progress towards establishing a more outward-looking Europe.

[5] http://www.hm-treasury.gov.uk./media/261/64/Growth_and_Opportunity-381MB.pdf

3 Raising Trend Growth

Includes:

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

PSA Target I- Trend rate of growth

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

PSA Target 4 - Productivity growth

PSA Target 6 - Regional growth

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

There is no PSA Target for this objective

Better Regulation Section

There is no PSA target for better regulation

Aim

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

PSA 1 - TREND RATE OF GROWTH

3.1 PSA target 1 relates to the Treasury aim, it is not linked directly to an objective. It states that the Treasury will:

> 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.

3.2 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 2.75 per cent trend growth up to the end of 2006. From 2006Q4 onwards, trend growth is projected to be 2.5 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 assessed cyclical position of the economy.

Performance against target

3.3 So far in the current economic cycle, that is from 1997H1 (now judged as the start of the current cycle) to 2005Q4 growth in actual real non-oil output (Gross Value Added (GVA)) is estimated to have averaged 2.80 per cent a year. This compares with 2.55 per cent over the previous cycle as shown in Table 3.1. The Treasury estimates the economy to have been below trend in 2005Q4. So 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**.

Table 3.1: Estimated Trend Rates of Growth (per cent per annum)

	Period	Trend output per hour worked Underlying (per cent)	Trend output per hour worked Actual (per cent)	Trend average hours worked (per cent)	Trend employment Rate (per cent)	Population of working age (per cent)	Trend Output (per cent)
Previous cycle	1986Q2 - 1997H1	2.22	2.04	-0.11	0.36	0.24	2.55
First half of current cycle	1997H1 - 2001Q3	2.79	2.59	-0.44	0.42	0.58	3.15

Delivery

3.4 The policies and initiatives necessary to this PSA target inter-relate with a number of the Treasury's objectives, including Objective I on macroeconomic stability and Objective II on productivity and employment. Macroeconomic stability is important in improving growth in productivity and the employment rate over the economic cycle, which in turn increases the trend rate of output growth.

Achievements

3.5 The Government's macroeconomic framework has continued to deliver an unprecedented period of sustained and stable economic growth with low inflation. UK Gross Domestic Product (GDP) has now expanded for 55 consecutive quarters. On the basis of quarterly national accounts data, this is the longest unbroken expansion since records began. Moreover, the current economic expansion has persisted for well over twice the duration of the previous period of unbroken growth, with output having grown by 25 per cent since 1997.

Future Plans

3.6 The Treasury will continue to monitor closely economic developments affecting this target and the macroeconomic framework.

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

PSA 4 – PRODUCTIVITY GROWTH

3.7 PSA target 4 relates directly to this objective and states that the Treasury will:

> 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 against targets

3.8 The Treasury is **on course** to meet this target.

3.9 Recent ONS data shows that the UK is making progress in narrowing the productivity gap on both key measures of productivity - output per worker and output per hour. The output per worker gap has now closed with Germany and the UK now leads Japan by around 11 percentage points. The gap with France has approximately halved since 1995. Although the gap with the US remains significant, the UK is the only G7 country to have kept pace with the US since 1997. (See Chart 3.2).

3.10 The UK has further to catch-up on an output per hour worked basis but steady progress is being made against international comparator countries. The gap with France has fallen from 37 percentage points in 1995 to 29 percentage points in 2004. The per hour gap with Germany has fallen 10 percentage points and the UK now leads Japan by 17 percentage points.

3.11 There is evidence that the UK is making progress in raising trend productivity growth. Actual productivity (trend output per hour worked) is estimated to have grown by 2.59 per cent over the first half of the current economic cycle (1997H1-2001Q3) – higher than growth of 2.04 per cent over the whole of the previous economic cycle (1986Q2–1997H1).

3.12 The improvement in the UK's relative productivity performance has been achieved against a background of rising employment. Employment growth tends to dampen average labour productivity growth as new workers are, initially, less productive while they learn job-specific skills. The UK has successfully generated higher and more stable employment growth with over 2.3 million new jobs created since 1997. Adjusting for the effect of employment growth, it is estimated that the underlying rate of productivity growth was 2.79 per cent over the first half of the current economic cycle (1997H1–2001Q3) compared to 2.22 per cent over the previous economic cycle (1986Q2-1997H1). Taken together the UK is experiencing the longest combined sustained productivity and employment growth performance since the 1950s when records began. (See Chart 3.3).

Chart 3.2: International comparisons of output per worker 2004

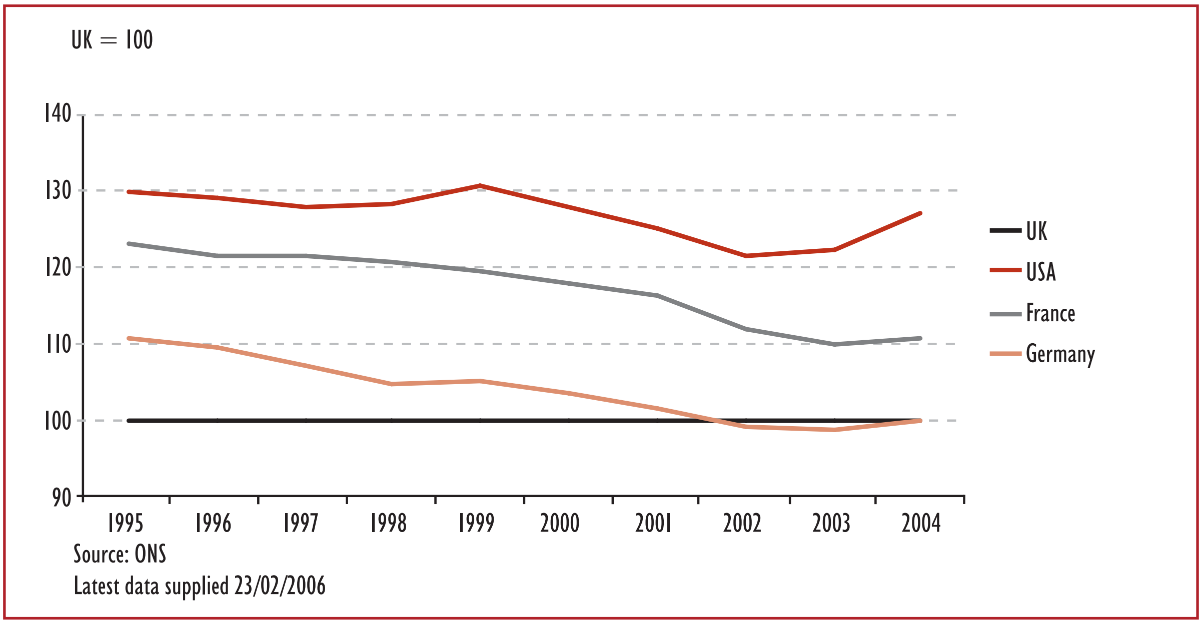
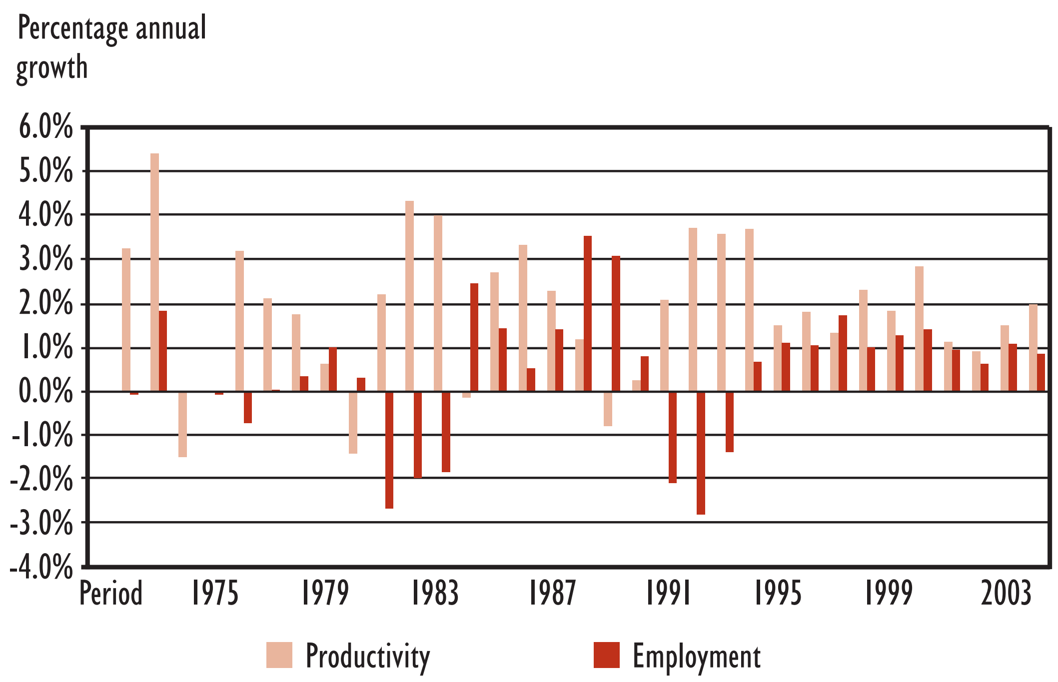


Chart 3.3: Employment and productivity growth



Delivery

3.13 The Government has identified five drivers of productivity:

- competition;
- enterprise;
- science and innovation;
- skills; and
- investment.

3.14 *Long-term global economic challenges and opportunities for the UK*[1], published alongside the 2004 Pre-Budget Report, identified the opportunities and challenges created by shifting economic activity and rapid technological change as faster information flows and falling transport costs continue to break down geographical barriers to economic activity. *Globalisation and the UK: strength and opportunity to meet the economic challenge*[2], published on 2 December 2005, set out the UK's existing strengths and where it needs to build on success, in order to thrive in a global environment. The latest data on international comparisons of productivity show that recently the UK has made progress in narrowing the productivity gap.

A range of measures set over the past year set out the Government's plans in these areas, particularly on science and innovation, attracting global investment to the UK, reducing the burdens on business and enhancing skills.

3.15 Recent policy developments targeting the five drivers of productivity include:

- publishing proposals alongside Budget 2006 for the next steps[3] on the Government's ten-year investment framework for science and innovation, including those to create a joint single health research budget of £1 billion a year and simplify institutional research funding. The ten-year framework provides a platform for future productivity growth and public service delivery via innovation in the UK, and it includes an ambitious target for Research and Development (R&D) intensity in the UK (R&D as a percentage of GDP) to reach 2.5 per cent by around 2014 from the current level of 1.9 per cent;
- investing in the supply of graduates in science, technology, engineering and mathematics (STEM) by boosting science in the School Accountability Framework, entitling all able pupils from 2008 to study three separate science GCSEs to increase progression to science A level and measures to recruit and develop science teachers;

[1] Available on the Treasury website http://www.hm-treasury.gov.uk
[2] Available on the Treasury website http://www.hm-treasury.gov.uk
[3] Science and innovation investment framework 2004-2014: next steps, HM Treasury, 2006

- a package of measures to create a world-class environment for health research to enable the UK to maintain a leading role in stem cell research; and a strengthened partnership with the biomedical industry to increase private investment in medical R&D by up to £500 million in the short to medium term, rising to £1 billion per year in the medium to long term;

- a package of reforms in Budget 2006 to boost inward investment, developing an ambitious strategy for marketing the UK including promoting London as the world's leading international centre for financial and business services; establishing a new International Business Advisory Council comprising some of the world's foremost business people to advise the Government on its response to the challenges of globalisation; a programme of organisational change to UK Trade and Investment to transform its effectiveness at marketing the UK and boosting the UK's reputation as a location of choice for higher education by enhancing support for international students and establishing three new University Partnership Schemes;

- the Government's response to Barker Review of housing supply at the 2005 Pre-Budget Report signalled its commitment to build more homes for future generations by bringing forward an ambitious package of measures to reform planning and deliver increased investment in infrastructure to support sustainable housing growth;

- announcing at Budget 2006 an additional £25 million from 2007-08 to allow all 19-25 year olds to study towards their first National Vocational Qualification (NVQ) level 3 qualifications without having to pay any tuition costs and an extra £11 million from 2007-08 to support the national roll out of the Adult Learning Grant which provides a means-tested allowance of up to £30 per week to young adults in full-time learning;

- a commitment to continue with the Enterprise Capital Funds pathfinder which provides a mixture of private and public capital to early-stage companies with real growth potential to tackle the equity gap. The Government has selected the first two funds (one for sustainable technologies and one for high technology firms) and committed in Budget 2006 to invest a further £50 million in 2006-07 and £50 million in 2007-08; and

- a package of measures to improve further the enterprise culture in the UK, both among existing businesses - implementing the recommendations of the Cox review of Creativity in Business, including announcing the intention to extend support for R & D through the tax credit system - and also ensuring that all young people with the drive to start up and expand their business are inspired to do so. The Government has recently announced a Schools Enterprise Education Network, as part of the £60 million investment in the roll out of enterprise education to all pupils at Key Stage 4, and a programme of 23 summer school pathfinders to be delivered to 1000 pupils across the UK in summer 2006.

Achievements

- Indicators benchmarking the UK's performance against major industrial comparators, which have been published since 1999, were revised following consultation in 2004. The new indicators are more focused, allow easier benchmarking of progress against the US, Germany and France, and are now published annually by HM Treasury and DTI[4]. A complete list of the revised indicators can be found in this publication, among others, it includes indicators on business and government investment as a share of GDP and others relating to research and development expenditure, patenting and high level skills in engineering and technology.

- The OECD (September 2005) ranked the UK's economic and administrative regulations as being amongst the lowest in the OECD. A recent study by the Milken Institute showed that the UK ranked first in the world in terms of entrepreneurs' ability to access finance in countries around the world.

- The UK remains a good place to start and expand a business, with the World Bank's study *Doing Business in 2006*[5] placing the UK top in the EU and 9th in the top twenty economies of the world with the best business conditions. The report also ranks the UK highly in terms of the cost of starting a business, which is less than in both France and Germany.

[4] Further details are available in UK Productivity and Competitiveness Indicators, DTI, 2006 available at www.dti.gov.uk/competitiveness
[5] Doing Business in 2006: Creating Jobs, World Bank 2006

- The UK competition regime's performance, as measured by the 2004 KPMG expert Peer Review[6], was ranked third globally behind the US and Germany. The report described the UK competition authorities as having all the necessary powers to develop a world-class competition regime.

Future Plans

Future plans include:

- continuing the independent review to examine the future skills needs of the UK economy led by Lord Sandy Leitch (Chairman of the National Employment Panel and formerly a Chief Executive of Zurich Financial Services). The Review will report, in its final phase, on specifically how skills and employment services can complement each other even more effectively;

- continuing the transport study led by Sir Rod Eddington, to report to Ministers in mid-2006, which has continued its comprehensive analysis of the links between the transport system and economic growth, within the context of the Government's objectives for sustainable development;

- continuing to examine the UK's intellectual property framework in Andrew Gowers' independent review, including an examination of how the intellectual property regime functions in the digital age and considering the challenges that rapid technological change pose for the regime;

- further progress on the independent review headed by Kate Barker to examine how, in the context of globalisation, and building on the reforms already put in place in England, planning policy and procedures can better deliver economic growth; and

- a forthcoming consultation to be launched in May 2006 on a metrics-based Research Assessment Exercise for assessing research quality and allocating quality related funding, publishing results in time for the 2006 Pre-Budget Report.

[6] Peer Review of Competition Policy, KPMG and the DTI, May 2004. Available on http://www.dti.gov.uk

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

PSA 6 – REGIONAL GROWTH

3.16 PSA target 6 relates directly to this objective and states that the Treasury will:

> 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 (ODPM) and Department of Trade and Industry (DTI)).

Performance against target

3.17 The Treasury is on **course** to meet this target.

3.18 An essential element of raising the rate of productivity growth in the UK (as set out in PSA 4) is to improve the economic performance of every part of the UK. Unfulfilled economic potential in every region must be released to increase overall productivity and the long-term growth rate of the UK. Trends in regional nominal Gross Value Added (GVA) per capita show that both the size and the relative rankings of the regions have been persistent over time.

3.19 That is why the Government has committed itself to making sustainable improvements in the economic performance of all English regions and over the long term reducing the gap in growth rates between the regions. The headline measure for this target is the trend rate of growth in GVA per capita. This is currently only available on a current price basis. Annual GVA per capita data for each region is only available after a 12-18 month lag.

3.20 The trend rate of growth in GVA per capita in each English region will be estimated for the period 2003-08 to measure performance against the regional economic performance target. The gap in growth rates will be measured by comparing the average growth rate of regions that currently have above average GVA per capita, with the average growth rates of regions that currently have below average GVA per capita.

3.21 There is emerging evidence of encouraging progress on enhancing regional economic performance and reducing the persistent gap in growth rates between the regions. Regional Gross Value Added (GVA) per capita data show that all English regions grew in 2003 and 2004 and that the poorer performing regions narrowed the gap in growth rates with London, the South East and East. A full assessment of trends in regional economic performance and disparities will be fully determined when the current economic cycle is complete.

3.22 In 2004, the average GVA growth rate per capita for the top three regions was 3.5 per cent compared to 4.6 per cent for the bottom six regions.

3.23 This progress is underpinned by two broad strands. Firstly, as set out in chapter 2 the Government has put in place a macroeconomic framework designed to maintain long-term economic stability and help businesses and individuals plan for the future Secondly, as described earlier in this chapter, the Government has introduced microeconomic reforms to address the five drivers of productivity (skills, investment, innovation, enterprise and competition) and to encourage people into work by making work pay.

3.24 Progress on narrowing the gap in growth rates between regions has been partly due to strong employment growth in the North. By 2005, the average employment rate for the North, Midlands and South West regions had risen to within 0.5 per cent of the average employment rate for London, South East and East. This compares with a gap of over 2 per cent in 2001. The skills gap between the top three regions and bottom six regions - as measured by the percentage of the working age population trained to National Vocational Qualification Level 2 or above - has also narrowed from 4 per cent in 2001 to 2.7 per cent in 2005.

Delivery

3.25 Important measures in 2005-06 to deliver the target by stimulating regional economic performance, improving the regional evidence base that informs policy and increasing regional input into national policy, include:

- reviews by six of the nine English regions, which have refocused their Regional Economic Strategies. The Regional Development Agencies (RDAs) have worked with regional and local partners to ensure that the reviews result in robust, realistic and evidence based strategies that will help each region make the most of their particular opportunities and respond to their particular challenges;

- indicative regional funding allocations across the inter-related areas of transport, housing and economic development to enable regions to align better their strategies and enhance their input into public spending decisions that affect the regions;

- a programme of transformation for the regional Government Office network, though the *Review of Government Offices*[7], which provides for more strategic, streamlined Government Offices to support and challenge regional strategies;

- next steps to strengthen devolution, performance management and accountability in the RDAs, including an independent assessment conducted by the National Audit Office and based on the Initial Performance Assessment (IPA) of the London Development Agency. This will be rolled out from 2005-06;

- publication of *Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth*[8] which analyses the contribution that cities make to regional economic performance;

- next steps to take forward the Northern Way growth strategy, including new science research centres, skills pilots and transport interventions, and a business plan to implement the £100 million Growth Fund;

- an agreement between the RDAs and the Office for National Statistics to work in partnership to deliver a full regional statistical presence by March 2007, an important step towards implementing Christopher Allsopp's recommendations on improving statistics for regional economic policy; and

- continued input from the RDAs on central Government policy decisions. The RDAs gave advice on rationalising business support; creating links between national and regional frameworks on innovation; and increasing private investment in economic regeneration. Budget 2006 responded in full to this advice, including by announcing that the Government will work with the RDAs and other local and national bodies to reduce the number of business support services from around 3,000 now to no more than 100 by 2010.

Future Plans

3.26 As set out in the HM Treasury's 2004 Technical Note, the Government will report on performance against the regional economic performance target this year.[9]

3.27 The Government has announced a review to feed into the 2007 Comprehensive Spending Review to explore the opportunities for further releasing the economic potential of English regions, cities and localities, and to respond more effectively to the ongoing challenge of tackling pockets of deprivation.

[7] Review of Government Offices, HM Treasury, Office of Deputy Prime Minister, March 2006
[8] Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth, HM Treasury, Department for Trade and Industry and Office of Deputy Prime Minister, March 2006.
[9] Technical Note for the HM Treasury Public Service Agreement (PSA) 2005-2008, HM Treasury, 2004.

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

Performance against target

3.28 There is no PSA target for Objective III. Assessment is based on overall progress.

Delivery

3.29 Delivery takes place in the context of increasingly global financial markets and recognising the value of London's position as a global financial centre.

3.30 To meet Objective III the Treasury has put in place policies aimed at:

- Improving the effectiveness of financial services in playing its key role in the wider economy by:
  - o working to improve the efficiency of the investment chain;
  - o helping the rest of the economy manage risk; and
  - o ensuring access to payment and other basic financial services for all.
- Maintaining the framework for safeguarding financial stability and managing risks.
- Tackling financial crime, particularly relating to money laundering and terrorist financing.

Achievements

Financial Stability

3.31 The Treasury continues to develop tripartite authority (HM Treasury, the Bank of England and the Financial Services Agency (FSA)) frameworks designed to respond to financial crises and major operational disruption. The tripartite authorities carried out a number of exercises in Q4 2005 to test these frameworks, including a market-wide exercise including market participants. The exercises were successful both in testing the effectiveness of the existing frameworks and in identifying areas which market participants and the tripartite authorities could work to strengthen. Lessons learned from these exercises are now being used to develop and refine planning for the future.

3.32 The tripartite authorities have recently agreed and published (22 March 2006)[10] an update of their 1997 Memorandum of Understanding. This updates the key roles and responsibilities of the tripartite authorities and their interaction with one another in times of crisis. This is essential for financial markets and Parliament to understand the frameworks in place to deal with such a crisis and ensures confidence in the UKs financial system.

European and International Developments in Financial Services

3.33 During the UK Presidencies of the EU and G7 in 2005 substantial progress was achieved on financial services issues. From a financial services point of view, the EU Presidency came at a critical juncture in the wider European debate and has successfully built upon the solid foundation laid over the past two years to set the shape of financial services policy over the medium term. Most importantly the European Commission's White Paper on Financial Services Policy 2005-2010 published on 5 December 2005[11] strongly reflects UK policy priorities of better regulation and enforcing and implementing legislation already agreed. There is also a high degree of consensus in the Council that this represents the correct way forward.

3.34 The UK's EU Presidency also successfully took forward a number of important legislative dossiers, most notably reaching a first reading deal on the Capital Requirements Directive, and progressing the Markets in Financial Instruments Extension Directive which is now agreed.

3.35 Internationally, the declaration on 2 December 2005 on future priorities for the EU-US financial markets dialogue, by the UK Presidency on behalf of the Council, the European Commission, and the US authorities, reaffirmed the commitment by the EU and the US to work together to minimise regulatory barriers so that transatlantic financial markets can operate as efficiently as possible. The Chancellor also launched a joint initiative with the Chairman of the FSA, Sir Callum McCarthy, and the Governor of the Bank of England, Mervyn King, to improve the way that global financial standards are set, which met with a good response and received the endorsement of G7 finance ministers in December 2005.

[10] Memorandum of Understanding between HM Treasury, the Bank of England and the Financial Services Authority available on website at this link: http://www.hm-treasury.gov.uk/documents/financial_services/regulating_financial_services/fin_rfs_mou.cfm
[11] White Paper on Financial Services Policy (2005-2010) available on website at this link: http://europa.eu.int/comm/internal_market/finances/policy/index_en.htm#20051205

3.36 The UK Presidency secured a general approach on the Payments Regulation at the European Council of Finance Ministers (ECOFIN) in December. The Regulation implements Financial Action Task Force Special Recommendation VII, a key counter-terrorist finance standard, across the EU.

London's Competitiveness as a Financial Centre

3.37 The Government announced in the Budget 2006 its intention to work with the financial sector in the UK to promote London as the world's leading international centre for financial and business services, to take advantage of the opportunities arising from global economic change.

Electronic Payments

3.38 In May 2005, the Payment Systems Task Force, chaired by the Office of Fair Trading (OFT), agreed to reduce clearing times on electronic payments between banks following telephone or internet instructions from customers, as well as on standing orders. In December 2005, the industry confirmed the details of the new system, which will mean customers can make payments within hours, on any day of the week, rather than the current three working day system.

Terrorism/Money Laundering

3.39 In October 2005, under the United Kingdom's Presidency of the European Union, the EU's third Money Laundering Directive was agreed. In February 2006 the Chancellor approved revised guidance to help firms to fight money laundering and counter-terrorist finance. The document, published by the industry group the Joint Money Laundering Steering Group, was the result of extensive public-private sector cooperation. Both the guidance and the EU Directive will result in the implementation of a risk-based approach to anti-money laundering by firms. To ensure that the Government's high-level engagement with industry is effective, the structure of public-private sector working groups on money laundering was rationalised, with new arrangements for the joint Treasury-Home Office chaired Money Laundering Advisory Committee taking effect from June 2005.

3.40 In December 2005 the Treasury published a detailed statement on the Government's efforts to disrupt the financing of terrorism. This is available on the Treasury's website[12]. The Chancellor set out details of further measures to prevent the financing of terrorism in a speech at the Royal United Services Institute in February 2006.

Better Regulation of Financial Services

3.41 In December 2005, the Government announced a 10 point action plan of reforms to wholesale and retail financial markets, which reflected the greatest concerns that businesses have raised about the burden of financial service regulation.

Oversight of Actuarial Profession

3.42 The Treasury has worked closely with the Financial Reporting Council (FRC) and the Actuarial Profession on implementing the central recommendation of the Morris Review that the regulation of the Profession should be subject to independent oversight by the FRC.

Stakeholder Products

3.43 With the legislation creating the stakeholder short-term cash deposit account and medium term investment product in place, a number of providers now offer these simplified products. To help promote these products a national marketing campaign was launched in September 2005.

Financial Inclusion and Capability

3.44 The Financial Inclusion Taskforce has begun its work to monitor the progress of the Treasury's strategy to increase access to financial services. In particular, the Taskforce has been monitoring progress towards the goal agreed by Government and the banks to halve the number of adults living in households without access to a bank account of any kind.

3.45 In addition, £36 million has been allocated to the Department for Work and Pensions from the Financial Inclusion Fund for a Growth Fund for third sector lenders, and £45 million to the Department of Trade and Industry (DTI) to support an increase in the provision of free face-to-face debt advice. The Financial Inclusion Fund was announced in the 2004 Pre-Budget report to support initiatives to tackle financial inclusion.

3.46 The Treasury also continues to work with a range of stakeholders on financial capability and important progress has been made in a number of areas. A key example of this was agreement to embed financial capability more explicitly in the school curriculum by including it in the new functional maths component of GCSE maths from 2008. Other examples include embedding financial capability in functional maths aimed at adults and providing more financial education to parents through Sure Start Children's Centres and locally delivered family numeracy programmes.

[12] http://www.hm-treasury.gov.uk/media/F5A/0E/prb05_terrorist_44.pdf

Unclaimed Assets

3.47 The Government and industry made good progress in discussions on unclaimed assets. The 2005 Pre-Budget Report set out how industry and Government would work together to take this issue forward.

Future Plans

3.48 The Treasury is committed to a programme of testing arrangements for managing operational crises in the financial markets and together with the FSA, the Bank of England and market participants, will continue to develop and improve response frameworks.

3.49 The Treasury will continue to work to ensure effective delivery of the European Commission's White Paper on Financial Services Policy 2005-2010 and to implement agreed European legislation in a sensible and cost effective manner, avoiding over regulation.

BETTER REGULATION

3.50 There is no specific PSA target on better regulation.

3.51 The Treasury has two roles relating to the better regulation agenda:

- promoting better regulation within the Treasury (most Treasury regulation is EU-led and relates to Financial Services); and
- promoting better regulation across Government by taking forward the Chancellor's commitment to improve the regulatory environment for business and public services.

3.52 The Treasury is committed to furthering the better regulation agenda across Whitehall to:

- reduce the administrative burdens upon business of understanding regulations and complying with them, including the costs of paperwork, undergoing inspection and complying with enforcement activity;
- examine the existing stock of regulation to ensure that outdated and outmoded regulations, and those encouraging practices that are not risk based, are removed from the statute book;
- ensure that there is a clear rationale to new regulations, that the benefits outweigh the costs and that alternatives to regulation are not feasible; and
- pursue an agenda of regulatory reform in Europe.

3.53 In May 2005, the Treasury and Cabinet Office published a Better Regulation Action Plan, which set out the timetable for implementing the wide-ranging reforms to the UK's regulatory framework that were announced by the Chancellor in Budget 2005. The following achievements have already taken place:

- the Legislative and Regulatory Reform Bill has been introduced, which will reinforce the principles of risk-based regulatory enforcement as being at the heart of regulatory practice. It will make the removal of complex or outdated regulation, and the reform of regulatory structures, simpler and quicker;
- a draft Code of Practice has been published, which will entrench the Hampton Review's principles in law if the Bill receives Royal Assent;
- following the recommendation of Sir David Arculus and the Better Regulation Task Force (BRTF), a project to measure the administrative burden of regulation is underway, with departments due to present their simplification plans to the Prime Minister's Panel for Regulatory Accountability before the end of the year;
- progress has been made merging regulatory bodies, with the Horticultural Marketing Inspectorate and Department of Enviornment, Food and Rural Affairs (DEFRA) Investigations Service being merged into the Rural Payments Agency (RPA) by 1 April 2006, Department of Trade and Industry (DTI) Companies Investigation Branch being merged into the Insolvency Service on 3 April 2006, and work to merge the Adventures Activity Licensing Authority and the Engineering Inspectorate into the Health and Safety Executive (HSE) to be completed in the near future;
- the creation of a Local Better Regulation Office has been announced to minimise local regulatory burdens on business and work, in partnership with local authorities and the national regulators, to deliver a risk-based approach to business inspection and enforcement; and
- a Better Regulation Executive-led review of regulatory penalty regimes, under Professor Richard Macrory has commenced. It aims to make penalty systems more consistent across regulatory bodies, ensuring that they reflect the impact of the offence, with tougher penalties for businesses that persistently break the rules.

Compliance with Regulatory Impact Assessments (RIA) Process

3.54 The Treasury produced three final RIAs between 1 April 2005 and 29 March 2006 . These are available on the Treasury website.

3.55 The Treasury has had 100 per cent compliance with the requirement to publish RIAs where they are necessary, including publishing all formal, written consultations with a partial RIA. The Department plans to maintain RIA quality through greater training within the Department.

Consultation

3.56 The Treasury initiated 20 consultations between 1 April 2005 and 31 March 2006. A full list of these consultations is given on the Treasury website[13].

3.57 The Treasury's consultation documents have positively influenced policy formation. For example, the recent consultation 'Proposed changes to the eligibility rules for establishing a pension scheme' will lead to changes to the current eligibility rules for establishing tax-privileged pension schemes from 2007. Stakeholders agreed that the current rules were rigid and outdated. There was also widespread support for the Government's preferred option.

Regulatory Reform Action Plan (RRAP)

3.58 The RRAP lists over 650 deregulatory measures identified since February 2002 by all regulating Departments. The Chancellor highlighted the progress of this regulatory reform programme in both Budget 2006 and the 2005 Pre-Budget Report.

3.59 The Treasury has one new item on the RRAP in December 2005: a Regulatory Reform Order to enable the Financial Services Authority to operate more effectively and efficiently, and in the process to place fewer burdens on industry and respond more quickly to the needs of firms and consumers. This will be achieved by amending the Financial Services and Markets Act (FSMA).

Effective Use of RIAs

3.60 The Treasury has continued to strive for effective RIA use. In implementing the Market Abuse Directive, offences in the UK's existing regime, which were wider than the offences in the directive, were retained. The relevant provisions were, however, subject to sunset clauses, which mean they will lapse three years after they come into force unless new legislation is passed. Before the sunset clauses take effect, the Treasury will review the impact of the substantive provisions to which they relate. This approach will allow an evidence-based decision to be made about the scope of the UK's market abuse regime, a regime that was only introduced in 2002 and about which there is therefore currently limited evidence.

Better Regulation in Europe

3.61 The Treasury, along with the rest of Government, placed regulatory reform at the centre of the UK's presidency of the EU. In the second half of 2005, the UK Presidency worked closely with the Commission and the other 24 Members States and achieved significant progress on this agenda including:

- agreement to simplify over 1400 existing rules and regulations;
- withdrawal of 68 proposed EU regulations;
- a commitment to test the competitiveness impact of all new EU regulations in impact assessments; and
- a commitment for administrative burdens to be measured in all EU proposals.

3.62 Significant challenges remain if the EU and its Member States are to have an appropriate regulatory environment that will enable Europe to compete in the global economy while protecting other legitimate policy objectives. At the December 2005 ECOFIN meeting, chaired by the Chancellor, EU finance ministers welcomed proposals tabled by the UK presidency in collaboration with the incoming Austrian and Finnish presidencies that set out the next steps on the European better regulation agenda in 2006 and beyond. This stressed the importance of all EU Member States and institutions implementing the agreed measures to improve both the stock and flow of regulation. The Treasury will continue to ensure that the methodology for measuring administrative burdens is integrated into the regulatory simplification programme; prioritise a risk-based approach to implementation and enforcement of EU legislation; and strengthen stakeholder consultation, including business input to the process of regulatory design.

3.63 During the UK presidency the Commission also committed to examine systematically new EU proposals to ensure that the needs of small/medium sized enterprises (SMEs) are properly prioritised. Research consistently shows that small businesses suffer disproportionately from poor regulation. Greater consideration will now be given to measures including exemptions, longer transition periods, reduced fees, and simplified reporting requirements. In consultation with business groups, the Small Business Services will lead efforts within the UK to identify regulations for which measures to reduce the regulatory burden for SMEs would be appropriate and will work with the Commission to deliver these proposals.

[13] http://www.hm-treasury.gov.uk

3.64 The Treasury continues to play an active role in driving this agenda forward, building on the achievements of the UK presidency. As a result, heads of state at the Spring European Council adopted an ECOFIN proposal that urged the European Commission to consider specific provisions, such as exemptions from legislation, to reduce the burden on SMEs. The European Commission was also invited to measure the burden of EU regulation, particularly on SMEs and explore options for setting measurable targets for administrative burden reduction in specific sectors and report to the Council by the end of 2006.

4 Promoting Fairness and Opportunity for All

Includes:

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

PSA Target 5 - Employment

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

PSA Target 7 – Child poverty

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

There is no PSA Target for this objective.

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

PSA 5 - EMPLOYMENT

4.1 PSA target 5 relates directly to this objective and states that the Treasury will:

> 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 (DWP)).

Performance against target

4.2 The Treasury is **on course** to meet this target over the economic cycle.

4.3 The latest quarterly data, December to February 2006, shows that the seasonally adjusted International Labour Organisation (ILO) employment rate for the working age population of Great Britain (GB) stands at 74.6 per cent and the seasonally adjusted ILO unemployment rate for the population of GB, aged 16 and over, stands at 5.2 per cent.

4.4 Given the current position in the economic cycle there is expected to be a rise in employment by the end of the cycle. This is because there is estimated to be 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.

4.5 The baseline for the SR2002 target is spring (March - May) 2003 and for the SR2004 target is spring (March - May) 2005.

4.6 Additional background information on the measurement of this target, including measurement of the economic cycle, is provided in the PSA Technical Note[1].

Delivery

4.7 The Government's policy framework that underpins its welfare to work agenda comprises:

- active labour market policies – tailored and appropriate help for those without work, to prevent long term detachment from the labour market;
- policies that make work pay – improved incentives through reform of the tax and benefit system, and the National Minimum Wage; and
- policies that reduce barriers to work – including education, skills, childcare and training policies to create an adaptive, flexible and productive workforce.

4.8 The DWP is responsible for the operational delivery of policies through its agencies, and in particular Jobcentre Plus. However, the Treasury also provides an important support and challenge function and works closely with DWP on the development of welfare-to-work policies. Furthermore, the National Minimum Wage and Tax Credits policies developed by the Treasury have helped to improve the financial incentives to work and tackle poverty among working people.

Achievements

4.9 The Government's long-term goal is employment opportunity for all – the modern definition of full employment. The strong labour market performance of recent years has helped deliver this, with many of the previously most disadvantaged groups and regions demonstrating the most significant improvements.

4.10 Labour market policies have contributed to ongoing improvements in headline employment, while also addressing the underlying weaknesses and inequalities within the labour market. Success at the national level has been reflected in progress in extending employment opportunity across all groups and regions. A successful macro-economic framework, real advances in skills and training, and a tax and benefit system that ensures that work pays, have seen over 2 million more people in work since 1997.

4.11 Since the introduction of the first New Deal programmes in 1998 to tackle long-term unemployment, the approach has been extended to people claiming inactive benefits such as lone parents, and to people with health conditions or disabilities who had previously been offered little or no personalised support to help them into work.

4.12 As a result of the New Deal and other active labour market policies mentioned above employment rates have risen for lone parents, older workers, ethnic minorities, and people

[1]Available on the Treasury website at: http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_table.cfm

with a health condition or a disability, as well as for people in disadvantaged areas.

4.13 The Working Tax Credit and the National Minimum Wage have boosted in-work incomes, improving financial incentives to work and tackling poverty among working people. Since the introduction of the National Minimum Wage in April 1999, the minimum income that people can expect when moving into work has increased, thereby reducing the unemployment trap.

Future Plans

4.14 Chapter 4 of Budget 2006 sets out the direction for reform of labour market support and benefits policy that builds on this strong performance.

4.15 The DWP Green Paper *A new deal for Welfare: Empowering people to work*, published in January 2006[2], sets out the Government's strategy for moving towards its long-term aspiration of an 80 per cent employment rate. This is an ambitious aspiration and achieving it will mean extending employment opportunity to all disadvantaged groups and areas. A key proposal is the introduction of a new, simplified Employment and Support Allowance to replace the current system of incapacity benefits from 2008, which will be supported by national rollout of Pathways to Work. Evidence from the Pathways pilots has shown that this approach - which provides a structured ongoing intervention regime delivered by a combination of Jobcentre Plus, the health service and the voluntary and private sector - is significantly improving the work prospects of incapacity benefits claimants. The Welfare Reform Green paper also proposes piloting new partnership arrangements between the different agencies that are tackling concentrations of worklessness in the UK's major cities.

4.16 The Government is committed to building on the success of the New Deal, and to using its investment in staff, processes and information systems to enable the continuing development and improvement of labour market support.

4.17 To remove the inequalities in employment, training and enterprise support currently facing some ethnic minority groups, the Government will implement the ten main recommendations of the National Employment Panel's (NEP) report *Enterprising People, Enterprising Places*[3], published in May 2005. In the 2005 Pre Budget Report, available on the Treasury website[4], the Government announced the introduction of two measures based on the NEP's recommendations:

- new private and third sector led employment teams to deliver outreach support for people who are neither in work nor on benefit based in areas of disadvantage and high ethnic minority populations; and
- a new Commission of Private Sector business leaders to advise on helping the private sector to tackle race discrimination in employment.

4.18 *Tax credits: reforming financial support for families*[5], published alongside Budget 2005, sets out the principles which underpin the Government's ongoing modernisation of the tax and benefit system, transforming it to promote a fair and inclusive society better able to rise to the opportunities and challenges of economic change.

[2] http://www.dwp.gov.uk
[3] http://www.nationalemploymentpanel.gov.uk/publications/nep/2005/epeppdf/fullreport.pdf
[4] http://www.hm-treasury.gov.uk
[5] http://www.hm-treasury.gov.uk

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

PSA 7 - CHILD POVERTY

4.19 PSA target 7 relates directly to this objective and states that the Treasury will:

> 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 target with the Department for Work and Pensions (DWP)).

Performance against target

4.20 This target has **not yet been assessed**. The target to reduce child poverty is monitored by reference to two separate measures:

- the number of children in households with income less than 60 per cent of contemporary median; and
- the number of children in households with income less than 70 per cent of contemporary median, combined with material deprivation.

4.21 The 1998-99 baseline for the first measure is 3.4 million children[6]. For this measure, low-income households are defined as households with income below 60 per cent of contemporary median equivalised income, before housing costs, as reported in the annual *Households Below Average Income* (HBAI) statistics[7].

4.22 Outturn data on material deprivation in 2004-05 became available for the first time in March 2006. The Government will analyse this and other information and set a baseline and threshold for the second child poverty measure later in 2006[8]. Additional background information to the measurement of this target is provided in the PSA Technical Note which can be found on the Treasury website[9].

4.23 As the precise construction of the material deprivation indicator has not yet been determined, it is not yet possible to formally assess progress towards PSA target 7. Between 1998-99 and 2004-05 the number of children living in households with less than 60 per cent of median income fell by 600,000, from 3.4 to 2.8 million - equivalent to a 19 per cent reduction.

Performance against SR2002 target

4.24 PSA target 8 in SR2002 stated that the Treasury would:

> 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 DWP).

4.25 The baseline for this target was 3.1 million children before housing costs (BHC) and 4.1 million after housing costs (AHC)[10].

4.26 Data released in March showed that, between 1998-99 and 2004-05 the number of children living in households with less than 60 per cent of median income fell by 700,000 on both the BHC and AHC measure. The fall in child poverty in the UK has been the largest percentage point reduction in Europe and compares with a projected rise in child poverty of more than 800,000 if the Government had simply indexed the 1997 tax and benefit system to prices. However, this equated to a 23 per cent reduction BHC and a 17 per cent reduction AHC, meaning that the target was narrowly missed on a BHC basis and missed on an AHC basis. The target was therefore **not met**.

Delivery

4.27 The Government's strategy to tackle child poverty is multi-faceted and involves action across Government departments and with partners in the voluntary and community sectors and in local government. The four main strands of the strategy were set out in the *Child Poverty Review*, published alongside SR2004, available on the Treasury website:

- work for those who can, helping parents participate in the labour market (see Objective II);

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[6] This year, National Statistics have been able to estimate a UK baseline figure for 1998-99 for the first time.
[7] Equivalised household income is income which has been adjusted to account for variations in household size and composition. The SR2004 child poverty target will be measured according to the OECD equivalisation scale, whereas previously the SR2002 target used the McClements scale.
[8] The target for this second measure will be regarded as met if, from 2004-05 to 2010-11, there is an equivalent proportionate reduction to that required on first measure from 2004-05 to 2010-11.
[9] http://www.hm-treasury.gov.uk
[10] Progress towards this target was measured on a Great Britain basis, using the McClements equivalisation scale, and therefore the baseline and outturn data differs from the SR2004 target. Additional background information on this target is available in the SR2002 PSA Technical Note.

- financial support for families, with more support for those who need it most, when they need it most;
- delivering excellent public services that improve poor children's life chances and help break cycles of deprivation; and
- support for parents in their parenting role so that they can confidently guide their children through key life transitions.

4.28 In light of outturn data released in March, the Government will strengthen its strategy. In April 2006, the child element of the Child Tax Credit was increased in line with earnings to £1,765 per year, an increase of £320 since its introduction in April 2003, and £75 above the 2004-05 rate. Budget 2006 announced that the child element would continue to rise at least in line with earnings until the end of this Parliament. This will provide a solid foundation for halving child poverty. Child Benefit has been increased by 26 per cent in real terms since 1997. Budget 2006 also set out a number of measures to help parents into work, provide further resources for education and to encourage employer provision of childcare.

4.29 For older members of society, the Government is continuing to build on the foundation of support provided by the Basic and Additional State Pensions. For example, the Pension Credit (introduced in October 2003) continues to support the poorest pensioners guaranteeing them a minimum income, and rewards those who have built up modest savings or have other modest income in retirement.

4.30 The Government remains committed to encouraging saving and asset ownership for all. The Government is using the second Saving Gateway pilot to explore how matching can help promote saving among those on lower incomes. The Child Trust Fund is a groundbreaking initiative designed to strengthen the savings habit of future generations and ensure that at age 18 for the first time in our history every child will have access to a financial asset.

Achievements

4.31 As a result of the Government's reforms to the tax and benefit system since 1997, by October 2005:

- families with children will be, on average, £1,500 per year better off, while those in the poorest fifth of the population will be, on average, £3,400 per year better off;
- a single-earner family on half male mean earnings with two children will be £3,950 a year better off; and
- a single-earner family on male mean earnings with two children will be £235 a year better off.

4.32 In terms of pensioners:

- between 1996-97 and 2004-05 over 1 million pensioner households were lifted out of relative low income poverty and 2.1 million pensioner households were lifted out of absolute low income poverty;
- by 2004-05 the risk of a pensioner household being poor had fallen to 16 per cent – apart from 1984 the first time since 1960 that a pensioner is no more likely to be poor than the population as a whole; and
- as a result of tax and benefit measures introduced since 1997, pensioner households are on average £1400 a year better off and the poorest third are on average £2050 a year better off.

4.33 In addition, Pre-Budget Report 2005 announced that Winter Fuel Payments would continue to be paid at £200 for households with someone aged 60 or over, rising to £300 for households with someone aged 80 or over, for the duration of this Parliament. Pre-Budget Report 2005 also announced additional support for central heating for pensioners and Budget 2006 announced free nationwide bus travel for people over 60 from 2008.

4.34 The second Saving Gateway pilot was launched in Spring 2005 and has around 22,000 accounts open, which will run for 18 months. Evidence from the pilot will inform the development of matching within the Government's strategy on assets and savings. The Child Trust Fund became operational in April 2005. All children born from September 2002 receive £250 to invest in a long-term savings and investment account and children from lower income households receive £500. The Budget 2006 announced that all eligible children will receive a further payment of £250 into their Child Trust Fund accounts at age 7, with children from lower-income families receiving £500. The Government continues to consult on a further payment at secondary school age.

Future Plans

4.35 The Government's SR2004 target to halve the number of children in relative low-income households between 1998-99 and 2010-11 will contribute towards the long-term target of eradicating child poverty by 2020. These are challenging targets and the Government will continue to work closely with partner organisations as it develops policy across welfare reform and public services, building on the progress already made.

4.36 In 2002, the Government set up the Pensions Commission to examine the regime for private pensions and long-term savings and consider whether the level of compulsion within the UK pensions and retirement system is appropriate. A second report was published on 30 November 2005, and a final report on 4 April 2006[11]. The Government has welcomed the broad framework of the Commission's report and is working towards the publication of a White Paper in Spring 2006.

[11] *A New Pensions Settlement for the Twenty-First Century: the Second Report of the Pensions Commission* and *The Final Report of the Pensions Commission* are available on the Pensions Commission website at: http://www.pensionscommission.org.uk/publications/index.asp

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

Performance against target

4.37 There is no PSA target for Objective VIII. Assessment is based on overall progress.

4.38 The Government is committed to promoting sustainable development, which is vital to ensure and maintain a better quality of life for everyone. To achieve this, strong and stable economic growth and social progress must be balanced with action to protect and improve the environment. This objective was introduced in 2003 to reflect the Treasury's aim (originally Objective X, it was renumbered as Objective VIII under Spending Review 2004 (SR2004)). Progress on sustainable development is reported by the Government against a comprehensive set of sustainable development indicators. These include environmental indicators covering, for example, emissions of greenhouse gases, air quality, river water quality, land use and waste. Progress on these indicators has been generally positive since 1999.

4.39 The impact and effectiveness of policy is also monitored through the Budget and Pre-Budget Process (PBR).

Delivery

4.40 The Treasury delivers against Objective VIII in two main ways. Firstly, by working with other departments to appraise the sustainable development implications of policy proposals. This relates particularly to the Treasury's work in monitoring PSAs across departments.

4.41 The Treasury also delivers against Objective VIII by using fiscal instruments, and other instruments where appropriate, to deliver environmental objectives. Environmental taxes and other economic instruments have an important role to play in securing sustainable development, along with regulation and spending policies. The Treasury's approach to environmental taxation was set out in the Statement of Intent on Environmental Taxation in 1997 and developed further in *Tax and the Environment: using economic instruments*, published alongside the 2002 Pre-Budget Report. More recently, Pre-Budget Report 2005 set out 'principles of environmental policy making', which reinforced this approach[12].

Achievements

4.42 The Treasury has made considerable progress against its environmental objectives particularly through the development and use of fiscal measures where it has a direct lead. Measures that have been introduced include the biofuels duty differential, company car tax and vehicle excise duty reforms to encourage the use of cleaner, more efficient fuels and vehicles; the climate change levy package to improve business energy efficiency; the landfill tax to encourage waste minimisation and alternatives to landfill; and the aggregates levy which promotes greater efficiency in the use of virgin aggregate and the development of alternative materials.

4.43 The Pre-Budget Report in December 2005 included support for alternative sources of energy, including further consultation on carbon capture and storage, collaboration with Norway on this technology, and additional funding for Carbon Abatement Technology demonstration. The Treasury has also undertaken further work on energy efficiency, and hosted a seminar in January 2006 to explore how Government and the business community can encourage the development of energy services markets. This issue is now being taken forward by an industry led working group.

4.44 Budget 2006[13] built on this by announcing measures to encourage energy efficiency across all sectors of the economy – energy, business, households, motorists - and exploring the potential of low-carbon technologies. In particular, reforms to vehicle excise duty were introduced to further strengthen the incentives to buy cleaner cars and there was a package of measures to promote household energy efficiency including bringing forward an extra 250,000 installations of subsidised insulation in British homes over the next two years. Budget 2006 also published a document highlighting the impact of the climate change levy package, which has cut carbon emissions by a total of over 28 million tonnes so far.

4.45 The Treasury has also continued to work with other Government departments to implement the first international carbon trading scheme, the EU Emissions Trading Scheme (ETS), and is now taking forward work to develop Phase Two (2008-2012). It is also working with other Member States to ensure agreement on a scheme extending beyond 2012.

[12]All publications are available on the Treasury website www.hm-treasury.gov.uk
[13]Available on the Treasury website www.hm-treasury.gov.uk

4.46 In addition, the Treasury, with other departments, is leading international work on climate change. This is vital given the global nature of the problem. Work on climate change was a key priority of the UK's Presidencies of the G8 and EU. The G8 agenda has involved creating long-lasting change, working in partnership with developing countries, particularly those with fast-growing economies and significant energy needs.

4.47 During the EU Presidency, the Government helped further discussions through the EU at the Montreal climate change conference, established continuing work on the development of a long term strategy, reaffirmed the EU's commitment to the Kyoto Protocol and took work forward on tackling aviation emissions. There was strengthened engagement with India, China, Russia and Canada on climate change through the EU summits.

Future Plans

4.48 The Treasury will continue to work with other Government departments and external stakeholders on the appraisal and development of sustainable development policies. It will also continue to explore the use of economic instruments to achieve its environmental and sustainable development objectives. The next steps include:

- working with other departments to take forward policy measures arising from the climate change programme review, published 28 March 2006. Contributing to the Energy Review, which is due to report in summer 2006;
- assessing the analysis and policy implications of the Review of the Economics of Climate Change led by Sir Nick Stern (to be published in autumn 2006);
- further consultation with stakeholders on the detail of the Renewable Transport Fuel Obligation, including the issue of carbon accreditation;
- advancing understanding of carbon capture and storage (CCS) through consultation on the barriers to wide-scale commercial deployment of CCS in the UK and further discussions with Norway to share information on the feasibility and costs of CCS;
- analysis, as part of the Comprehensive Spending Review (CSR), to inform future action on managing pressures on the environment and natural resources from modern patterns of production and consumption;
- further work in preparation for Phase II of EU Emissions Trading Scheme (ETS) (2008-2012) including the inclusion of aviation and work with other Member States to secure agreement on a scheme extending beyond 2012;
- as part of Government's commitment to returning climate change levy to business, discussing with business the most effective way of supporting investment in energy efficiency and the environment;
- supporting the work of the group examining the provision of information and support on energy efficiency to business. This group will be co-chaired by the Financial Secretary and Richard Ellis, Chair of the East of England Development Agency;
- bringing together local and central government to encourage dissemination of best practice and innovation in terms of reducing emissions in the public sector;
- continuing to explore how the Wear and Tear Allowance might be reformed to incentivise landlords to invest in energy efficiency; and
- continuing to explore economic instruments as a route through which improved environmental performance in the aviation sector can be incentivised.

5 Delivering High Quality Public Services

Includes:

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

PSA Target 9 – Improved Public Services and Efficiency

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

There is no PSA Target for this objective

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

IMPROVED PUBLIC SERVICES AND EFFICIENCY

Performance against target

5.1 PSA target 9 relates specifically to this objective. It states that the Treasury will:

Improve public services by working with departments to help them meet their:

- PSA targets (joint target with the Cabinet Office); and
- efficiency targets amounting to £20 billion a year by 2007-08,

consistently with the fiscal rules.

5.2 The Treasury is currently **on course** to meet this target.

Delivery

5.3 The Government's long-term goal is to deliver world-class public services through investment and reform to ensure that taxpayers receive value for money. The Treasury has developed a framework for planning and controlling public spending which:

- is underpinned by firm fiscal rules;
- provides a stable basis for departmental planning, with budgeting over three years;
- allocates resources on the basis of firm and fixed plans;
- provides separate allocation for capital spending, to ensure sustained increases in investment;
- links budgets to challenging outcome-focused targets as part of departmental PSAs;
- accounts for progress through a high level of transparency about what is being achieved against PSAs, with twice-yearly performance reporting by departments and a website which provides a single point through which the performance information can be accessed[1]; and
- links investment to reform and delivery.

5.4 The PSA framework has evolved over successive Spending Reviews to a framework characterised by a focus on outcomes and fewer centrally set measures. The introduction, in the 2004 Spending Review, of PSA 'standards' (in areas where the Government's ambitions for public service improvement sought in previous PSA targets had been achieved or were soon to be achieved), has ensured that high standards in priority areas are maintained and monitored.

5.5 The Treasury and the Prime Minister's Delivery Unit (PMDU) continue to work together closely to assess progress and help enable delivery by supporting the work of departments to deliver their targets. All departments remain accountable for meeting their PSA targets. Over the past year there has been increased collaboration between the Treasury and PMDU to align effort, spread good practice and draw out the lessons from delivery in Government.

5.6 There is a dedicated efficiency team in the Office of Government Commerce (OGC), which is co-located with Treasury spending teams and the PMDU. Treasury spending teams, in collaboration with the OGC efficiency team, are working with departments to achieve efficiency gains. The role of the OGC efficiency team is to drive forward and coordinate implementation of the Government's efficiency programme, actively challenging organisations across the public sector to obtain best value from their procurement programmes and improve their efficiency delivery. The efficiency team reports on progress and delivery directly to the Prime Minister and the Chancellor.

5.7 Efficiency Technical Notes set out the measures and methodologies that departments use to assess efficiency gains. These were refreshed and republished alongside the Pre-Budget Report in December 2005 (and are accessible through a single website[2]). The National Audit Office (NAO) and Audit Commission have provided advice to departments in defining their measurement approach and developing Efficiency Technical Notes.

[1]http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_index.cfm
[2]http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_table.cfm

Achievements

5.8 The Treasury, working closely with the PMDU, has continued to support departments on delivery. Departments are working towards delivery of the PSA targets set for SR2004 and continue to report progress on targets from the SR2002 set. The majority of SR2002 targets were given summary progress assessments by departments in their 2005 Autumn Performance Reports and, of those that were, around 80 per cent were reported as being met or on course. Full data for the SR2002 period is not yet available and some targets have a longer horizon than the SR2002 period, so final reporting on the full SR2002 set is not yet possible.

5.9 A report on the data systems for the SR2002 PSA targets was published by the NAO in March 2006[3]. The Statistics Commission also issued a report in March[4], the final version of an assessment on the statistical robustness of PSA targets. The NAO report concluded that 77 per cent of data systems were broadly appropriate or better. The Statistics Commission report made a number of recommendations to help improve the statistical underpinnings of PSAs. The Treasury is committed to ensuring that the data used in monitoring and reporting on PSA targets is relevant and reliable, and will work to ensure that the issues raised in these reports are considered and taken forward where appropriate.

5.10 The Government is committed to releasing efficiency gains to front-line services for the delivery of better public services. Budget 2006 announced that departments and local authorities have reported provisional annual efficiency gains totalling £6.4 billion by the end of December 2005. A gross workforce reduction of 40,400 posts, including 7,150 reallocations to the frontline and over 6,600 relocations out of London and the South East have also been reported in the Budget. The Government remains 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 £21.5 billion. Departments report on their own progress in Autumn Performance Reports and in annual (spring) Departmental Reports. The Treasury Group's progress towards its own target is set out in Annex C of this report.

5.11 A recent NAO report[5], assessing the progress across government in achieving efficiency gains, recognised that this efficiency programme is the first to look at the efficiency of the public sector as a whole, requiring departments to demonstrate reforms have at least maintained the quality of public services. It provides a more structured and potentially more transparent model for delivery and accountability. The NAO reported that many efficiency projects are making good progress towards achieving efficiency gains and in many respects departments are managing their efficiency projects well. The NAO noted that the reported efficiency gains should be subject to further verification, in part because lags in the reporting of data mean there will already be further gains achieved beyond what has been reported. The gains will be verified after the end of the financial year.

Future Plans

5.12 The forthcoming Comprehensive Spending Review (CSR) offers the opportunity to refine the PSA framework so that it further drives effective delivery and the attainment of ambitious national standards. Building on the recommendations of the Devolving Decision Making Review (published alongside Budget 2004), central targets will continue to form part of a framework that promotes local autonomy, innovation, accountability and participation and thus ensures efficiency, equity and choice in public services.

5.13 The CSR will be examining public expenditure over the long term. As part of this, the Government will build on the existing efficiency programme to embed and extend efficiency and value for money in government departments' long-term planning. Budget 2006 announced that the Home Office, the Department for Work and Pensions, HM Revenue and Customs, HM Treasury Group and the Cabinet Office have already agreed to deliver ambitious value for money reforms over the CSR period, enabling them to continue improving services within Departmental Expenditure Limits (DEL) that will fall by 5 per cent in real terms per year in 2008-09, 2009-10 and 2010-11. These early settlements embed efficiency savings and release £1.8 billion in total for re-investment in front-line public services.

[3] Second Validation Compendium Report: 2003-06 PSA data systems
[4] PSA Targets: The Devil in the Detail
[5] Progress in Improving Government Efficiency, NAO, February 2006

Objective VII Achieve world-class standards of **financial management** in Government

Performance against this target

5.14 There is no PSA target relating directly to this Objective. Assessment is based on overall progress. As part of the 2004 Spending Review (SR2004), the previous Objective IX 'To achieve a high standard of regularity, propriety and accountability in public finance' was refocused and from 2005-06 became Objective VII (above).

5.15 The year has seen substantial progress on the Financial Management change agenda in pursuit of Objective VII. A key lever to encourage improvements in the management of performance, risks and resources was the publication in July 2005 of the *Corporate Governance Code for central government departments*.[6]

5.16 The year has also seen the completion of an entire programme of 45 department-by-department reviews of the effectiveness of financial management and in each case agreement to an action plan for improvement. Follow-up work has already started on individual department and cross-government action plans. On 18 April 2006 a memorandum was sent to the Treasury Select Committee summarising the common themes emerging from the Financial Management reviews and identifying the cross-government follow up projects.

5.17 Significant progress has been made on finance professionalism and finance skills, with the recruitment of a number of department Finance Directors and gateway standards and professional expertise being set for Finance Professionals (both in terms of qualification and job experience). Under the Professional Skills for Government (PSG) initiative, core financial management competencies have been agreed by the Civil Service Management Board for all civil servants in the Senior Civil Service and at Grade 7 level.

Delivery

5.18 The Government's aim is to achieve world-class standards of financial management in the UK public sector. This involves embedding financial management skills at all levels in the sector alongside enhanced governance, risk and reporting frameworks in order to improve decision-making and the delivery of planned outcomes.

5.19 Measures in place to secure further improvements in UK public sector financial management include:

- implementing standards of good practice for corporate governance and resource management in central government departments;
- reviewing and taking action to improve key aspects of financial management processes in departments;
- maximising the impact of the risk management agenda;
- providing training and development programmes to assist budget holders in improving financial planning and decision-making;
- strengthening financial professional skills throughout government with the appointment of professionally qualified Finance Directors in all government departments;
- a single integrated Treasury system - Combined Online Information System (COINS) - for collecting financial data from Departments and a programme of work to enhance central review and action on that data;
- 'faster closing' of departmental accounts with the aim of all accounts being laid before Parliament by the summer recess; and
- developing the Whole of Government Accounts (WGA) programme for all the UK public sector.

Achievements

Corporate Governance

5.20 A new Corporate Governance Code for central government departments was introduced in July 2005. The Code draws on the private sector Combined Code and guides departments on working through boards to improve performance, risk and financial management in better delivery of Ministers' objectives.

[6] http://www.hm-treasury.gov.uk./documents/financial_management/governance_government/pss_audit_corporategovernance.cfm

Financial Management

5.21 The first round of 45 financial management reviews of departments has been completed, identifying common themes, barriers and best practice and resulting in individual departmental action plans that form the basis for future improvements in financial management. Processes have also been put in place to agree and deliver cross-government initiatives for improving resource management.

Risk Management

5.22 The momentum on risk management was maintained through a Sub-Committee of the Permanent Secretaries' Management Group, chaired by Sir Brian Bender, for which the Treasury provides the Secretariat. Analyses of the annual Departmental Risk Reports have confirmed continuing progress, and informed the Sub-Committee's thinking on driving culture change. To support this, the Treasury and the Cabinet Office are facilitating a series of seminars for Ministers on risk and financial management.

5.23 *Managing risks to the public: appraisal guidance* was issued to help policy makers address certain risks that the public faces. The Treasury continues to work with Departments to identify and share good practice. This has led to the publication of a set of risk case studies *Risk: Good Practice in Government*. The Treasury has also provided significant input to hearings into the management of risk by the Committee of Public Accounts[7] and the House of Lords Economic Affairs Committee.

Fraud

5.24 The annual fraud report was published using simplified data collection processes. Anti-fraud events were held to promote awareness of the risk of fraud and to help coordinate anti-fraud activity across government.

Internal Audit/ Assurance

5.25 Support for the Internal Audit function in government was further developed with new additions to the series of *Good Practice Guides* being published. Much preparatory work was undertaken in developing a new approach to the assessment of the quality of internal audit services and in revising the Audit Committee Handbook – these significant pieces of work are due for completion in the new financial year. The Treasury has continued to support the wider profession by participating actively in the work of various institutes, including the Institute of Internal Auditors, by participating widely in relevant conferences and seminars, and by providing bespoke conferences and training events for government internal auditors. In this latter respect much work had been done in developing a vigorous approach to continuing professional development for government internal auditors. The professionalism of internal audit was enhanced by holding continuous professional development events and establishing internal audit as a professional group under Professional Skills for Government.

Financial skills in management

5.26 There were substantial advances this year in financial professional skills in government:

- 60 per cent of department Finance Directors were professionally qualified as at end March 2006 (compared with 20 per cent two years earlier);
- core financial management skills for all Grade 7 civil servants and the Senior Civil Service were agreed by the Civil Service Management Board and implemented in September 2005;
- an inventory of government finance training for all senior civil servants was undertaken in the summer of 2005 and plans are now well-advanced to implement a new cross-government suite of management finance training;
- gateway standards and professional expertise were established for Finance Professionals, requiring job-related expertise;
- a shared service was initiated, administered by Department for Work and Pensions (DWP), for the recruitment of trainee accountants;
- a study on the career development of finance professionals was completed and shared with departments; and
- updated guidance on the role of the department Head of Finance Professionalism was produced.

[7] All PAC reports and responses relating to the Treasury are available on the PAC website at www.parliament.uk

5.27 The journal for finance professionals ("Gasette") has been reinvigorated to provide more attractive and easier access to useful technical information and news-worthy items. The Government Accountancy Service (GAS) website[8] is pushing forward the boundaries in sharing financial information and knowledge; although in its infancy, the website currently holds information on core financial management skills, gateway standards for finance professionals, finance training, key events, job vacancies, the "Gasette" and key contacts.

Whole of Government Accounts (WGA) Programme

5.28 In December 2005, Delivering the Benefits of Accruals Accounting for the Whole Public Sector was published summarising how the WGA programme has built on the developments in public sector accounting. It also outlines the benefits that are already being realised and the Government's strategy for publication of financial data based on Generally Accepted Accounting Principles (GAAP) in future years.

5.29 There was development, this year, of the systems and processes for the consolidation of central government GAAP data. Central government data are increasingly being used to support efforts by the Office of National Statistics (ONS) to improve the quality of national accounts. A first dry run Whole of Government Accounts process including local authorities and NHS Trusts was implemented during 2005-06.

5.30 The new Financial Reporting Manual (FReM) was developed and published in April 2005; this is a principles based manual providing guidance for Departments, Agencies and Non-Departmental Public Bodies (NDPBs).

COINS

5.31 The Combined Online Information System (COINS) for public finances data, which replaces three legacy systems, was brought into operational use on a phased basis between June 2005 and March 2006.

Publication of Resource Accounts

5.32 Treasury continued to support and encourage Departments in improving the quality and timeliness of their resource accounts. (See Table 5.1 below).

Table 5.1: Resource Accounts

		Type of Qualification				
Financial Year	Qualified Accounts (a)	Disclaimed opinion/nil opinion (b)	Adverse opinion	Disagreement/ limitation of scope	Regularity	Excess vote
1998-99 (c)	30	7	5	18		n/a
1999-00	12	3		9		n/a
2000-01	9	2		7	2	n/a
2001-02 (d)	16			6	3	10
2002-03	8	1		2	1	6
2003-04	4			2	2	2
2004-05	2	1		2	1	1

Notes

(a) The number of accounts qualified does not necessarily equal the total of all types of qualification because some accounts were qualified for more than one reason.

(b) 'Disclaimed' or 'adverse' opinions imply major disagreement between the auditor and the body over the content of the accounts or an inability to substantiate significant areas of the accounts. 'Disagreement' over an item in the accounts, or stating that the auditor was unable to form a view on an item ('limitation of scope'), may imply that a serious issue remains unresolved, but generally implies the issues are not pervasive throughout the accounts. The auditor will also issue a qualified report if the expenditure was in excess of Estimates (an 'excess vote') or not for the purposes intended (a 'regularity qualification').

(c) 1998-99 accounts were dry-run resource accounts.

(d) 2001-02 was the first year in which resource based Estimates were presented to Parliament

[8]http://thegas.treasury.gov.uk

Central Funds and Banking Shared Services

5.33 The Consolidated Fund, National Loans Fund and Contingencies Fund accounts all received unqualified audit opinions, the Contingencies Fund account being produced on an accruals basis for the first time. In addition, a new computer system (Accounting and Cash Management for the Exchequer) to modernise treasury management procedures in these central accounts was successfully introduced.

5.34 The programme for letting contracts for a major extension of the shared service providing banking services for government entities, and the subsequent heavy programme of transition, was initiated in 2005. In view of the capability of Her Majesty's Revenue and Customs (HMRC) in the areas of project management and managing operational activities, the programme was transferred to HMRC with effect from 3 April 2006.

Future Plans

5.35 The main priorities in the year ahead under Objective VII are:

- tracking departments' published responses to the Code of Corporate Governance to increase the effectiveness of departmental boards;
- in consultation with experts across Whitehall and under the guidance of a high level steering committee, preparation of a new guide to ethical behaviour in the use of public resources, to build on and replace Government Accounting;
- initiating a project to consider how well the current structures of departments and their various bodies enable good financial management;
- measuring and encouraging further progress in improving departments' ability to handle risk, providing advice to departments on combating fraud and continuing to support internal auditors and Audit Committee members through advice, guidance and training events in partnership with the National School of Government. A revised Audit Committee handbook will be published in 2006;
- the Financial Management Change agenda:
    - o active involvement in the programme of capability reviews being led from the Cabinet Office to reinforce the importance of "top down" department management and the link between performance, risk and financial management;
    - o continuing with a programme of seminars for Ministers on financial management and risk;
    - o following up on individual departmental Financial Management review action plans and working with Finance Directors to take forward the financial management agenda across Government;
    - o further work to encourage the integrated reporting of performance data across government: measuring what is delivered; knowing what it costs; and reporting this information to enable management that achieves value for money;
- continuing to work with Permanent Secretaries on the recruitment and appointment of professionally qualified Finance Directors;
- launching a suite of training products to enable all civil servants to acquire the core Financial Management skills through e-learning, class based training and core skills masterclasses;
- designing and developing a 'Finance Option' within the UK Civil Service Fast Stream selection and pilot an in-service scheme in conjunction with the Cabinet Office and departments;
- completing the second dry run of Whole of Government Accounts including local authorities, National Health Service trusts and public corporations in the course of the year;
- building on the implementation of COINS to improve financial management by further developing the Treasury's and departments' ability to analyse public spending data and control expenditure; and
- completion of the Contingencies Fund account to allow earlier laying before Parliament in 2006; and in 2007 the earlier completion and laying before Parliament of the Consolidated Fund and National Loans Fund accounts.

6 Managing Ourselves

HM TREASURY

6.1 To deliver its objectives, the Treasury[1] must have **good leadership**, be **fully staffed by people who have the right skills and experience** and who **reflect the diversity of the society it serves**, and **increase professionalism**. The department must ensure that its **corporate services are effective and efficient**, that it **communicates effectively with the public and Parliament**, and that it nurtures a **supportive and sustainable working environment**.

6.2 The **Comprehensive Spending Review** settlement for the Treasury Group was announced in Budget 2006. Building on the efficiency programme put in place in the 2004 Spending Review (SR2004), the Treasury Group's Departmental Expenditure Limit (DEL) will fall by 5 per cent in real terms per year in 2008-09, 2009-10 and 2010-11, with access to a modernisation fund to help meet the transitional costs of any changes necessary to implement the settlement.

6.3 Planning for the implementation of this settlement is now underway. At the beginning of 2006 the Treasury Group initiated a series of zero based reviews, taking a comprehensive look at its areas of activity and corporate overheads. The results of these reviews will enable the department to identify opportunities for efficiencies and rationalisation, including examining the scope for sharing services.

6.4 The Treasury Group is **on course** to meet its SR2004 commitment to reduce the number of full time equivalent staff by 150 between April 2004 and April 2008 (for more details see Annex C). The Treasury Group is also on course to meet its target, also agreed as part of SR2004, to achieve annual efficiency savings of £18.7 million by 2007-08, equivalent to 7.5 per cent of the Treasury Group's resource Departmental Expenditure Limit[2].

6.5 The Treasury is largely managed through its Ministerial and Corporate Services Directorate which has responsibility for Human Resources (HR), Information Services (IS), monitoring of the department's efficiency programme and headcount targets, accommodation, security, Treasury Legal Advisors, ministerial support and communications strategy. The Treasury's internal finance function sits within the Government Financial Management Directorate.

Good leadership

6.6 The Treasury Board (see Box 6.1) continues to provide corporate leadership for the department. Since the last Departmental Report, two new Managing Directors have been appointed to the Board and, given his new role as Adviser to the Government on the economics of climate change and development, Sir Nick Stern has become a non-executive member.

BOX 6.1: THE TREASURY BOARD

Purpose: to lead a Treasury that delivers its objectives and targets now and in the future.

Objectives:

- shape the vision, strategy and priorities that deliver the Treasury's objectives as agreed with Ministers and communicate this to staff and other stakeholders;
- monitor and improve the Treasury's performance and ensure risks and opportunities are identified and well-managed in the short, medium and long term;
- ensure effective allocation and management of the Treasury's staff and financial resources including succession planning; and
- protect and enhance the Treasury's reputation as a high performing finance ministry.

Meetings: 6 times per year.

Membership: Permanent Secretary (Chair); Managing Directors; Chief Executive of OGC; Director of Operations; Director of Policy and Planning; and the Non-Executive Directors: Stella Manzie, Sir Peter Gershon, Sir David Varney, William Sargent and Sir Nick Stern.

Committees

- The Treasury Board has two sub-committees which meet monthly - the **Finance Committee** and the **Operations Committee**. The membership of the committees is the Treasury's Managing Directors and Directors. These committees are accountable to the Board for financial and operational issues and decisions, and assess financial and operational management information monthly.
- In addition, the **Audit Committee**, which meets four times a year - chaired by a Non-Executive Director, William Sargent - advises the Accounting Officer, Nick Macpherson, on the adequacy of risk management and controls in the Treasury.
- There is also an **Executive Management Group** comprising of the Executive members of the Board, which meets weekly.

[1] All references to the Treasury in this chapter relate to the core Treasury. It does not include OGC or DMO, whose costs are included in the Treasury Group, unless explicitly described. More information on the DMO and OGC, their work and organisation, can be found in Chapter 7 of this report. Information on the financial resources of the Treasury Group as a whole can be found in Annex B and the complete picture in the Treasury's Resource Accounts (most recently HC 93 for 2004-5).

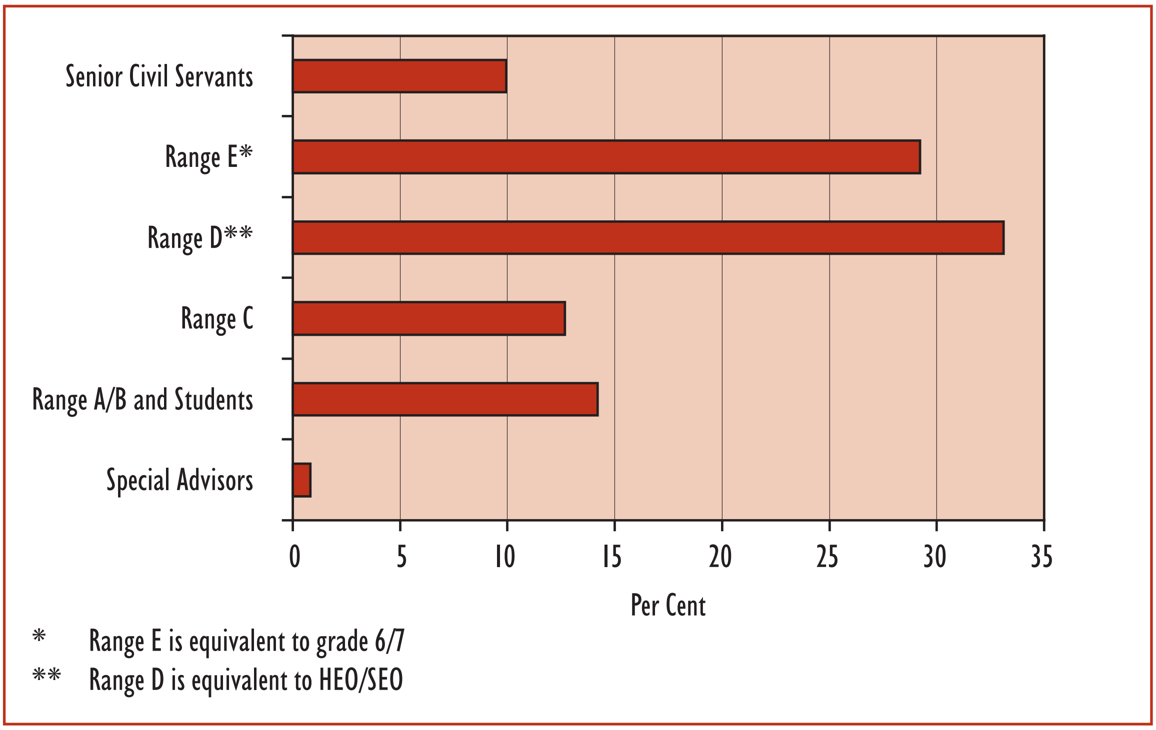
[2] The target was initially set at £17.7m but was subsequently raised to £18.7 million following OGCbuying.solutions increasing their contribution from £0.8 million to £1.8 million by 2007-08. Further information on the Treasury Group's efficiency plans, and progress towards the target, can be found in Annex C.

Staffed with people who have the right skills

6.7 The Treasury is a relatively small department. At just over 1100 staff, and despite the transfer last year of 150 positions from Her Majesty's Revenue and Customs (HMRC) to strengthen the Treasury's tax capacity function, the Treasury still operates with fewer staff than in the mid 1990s.

6.8 The Treasury needs to maintain its ability to recruit and retain highly skilled people to provide policy advice for ministers. Its staffing profile, which has a high proportion of senior grades, is not typical of public service delivery departments due to the Treasury's focus on economic and financial policy development. (See Chart 6.2).

Chart 6.2: Staff in Treasury by Range (February 2006)



Recruitment

6.9 The Treasury's recruitment procedures are in accordance with the Civil Service Commissioners' code, which is based on fair and open competition and selection on merit. There are systems in place to ensure compliance and these systems are subject to internal checks. They were internally and externally audited in 2001 and will be audited again during 2006-07.

6.10 In the calendar year 2005, the Treasury:

- recruited 27 policy analysts and economists directly at Range D through an open competition which completed in May 2005;
- recruited 6 business support staff directly at Range B through an open competition which completed in July 2005; and
- ran 36 other individual recruitment campaigns.

6.11 These successful schemes were additional to internal promotion to meet the Department's staffing needs at these levels. More detailed information on Treasury recruitment is available on the Treasury website[3].

Public appointments

6.12 The Treasury is committed to fair and transparent procedures for public appointments, taking into account the need for diversity.

6.13 The Treasury's Annual Appointments Plan for 2006 can be found on the Treasury website.

[3]http://www.hm-treasury.gov.uk

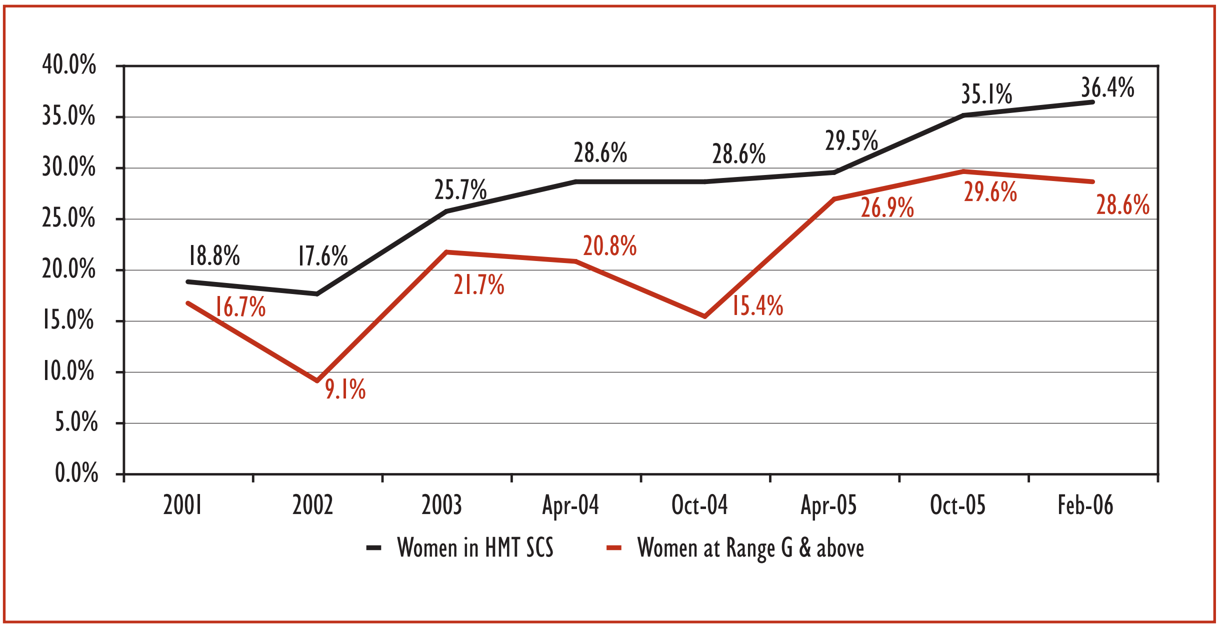
Reflect the society we serve

6.14 The Treasury actively promotes a departmental culture that values difference and recognises that diversity enriches the economy - and our society - and is an essential ingredient of change and progress. As an employer, the Treasury seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented work force that is representative of the society it serves. The Treasury fosters a culture of trust and openness in which people support and develop each other, and feel valued for the contribution they make.

6.15 Along with other government departments, the Treasury revised its aspirational targets during the 2004 Spending Review to increase the proportion of women, ethnic minorities and people with disabilities in the Senior Civil Service (SCS) to 37 per cent, 4 per cent and 3.2 per cent respectively by 2008. In addition, there is a target for the proportion of women in top management posts to increase to 30 per cent by 2008.

6.16 Since putting targets in place in 2000, the department has made progress on **increasing the numbers of women at the most senior levels** with women now taking over one quarter of the Treasury's most senior posts (see Chart 6.3) and almost 30 per cent of SCS posts overall. In the feeder grades below SCS, almost 40 per cent of staff are female ensuring there is a pipeline of talent to sustain progress. Many staff, both men and women, take advantage of alternative working patterns and home working which have been embedded into the Treasury's working arrangements for a number of years. The support the department has provided for staff with dependant care responsibilities is well established and includes a family help line, childcare vouchers and a holiday play scheme. These benefits have been welcomed at all levels in the department and take up, from both men and women, has been good.

Chart 6.3: Percentage of women staff at SCS and Director level



6.17 Representation of **ethnic minority staff** in the SCS is 2 per cent. Below the SCS steady progress has been made in increasing the pipeline of talent so that 4.9 per cent of Range Es and 15.6 per cent of Range Ds are from ethnic minorities. The Treasury has worked with its Ethnic Minority Advisory Group throughout 2005 to raise awareness of different cultural backgrounds and promote cohesion and understanding.

6.18 The Treasury was in the most improved category of the Race for Opportunity benchmarking exercise for 2005 mainly because of its programme of work in the last year which is set out in detail in the department's revised Race Equality Scheme (RES) published in May 2005[4].

6.19 Just over 2.2 per cent of SCS staff have recorded themselves as having a disability. The department has continued to work closely with its Disability Advisory Group to develop a strategy aimed at **increasing the number of disabled staff** recruited to the department and reducing the barriers for disabled staff in the workplace. The Treasury has built on the changes introduced in 2004 which included senior level advocates for disabled staff and improved guidance for staff and managers on reasonable adjustments. This approach contributed to the positive results the Treasury received in the Employers' Forum on Disability benchmarking exercise in which the department participated in 2005. The Treasury has set a number of performance indicators for its strategy including disabled staff attitudes and representation and will continue to monitor progress[5]. The department monitors a wide range of data on staff in post to help address areas of under-representation (see Table 6.4), as well as monitoring recruitment (see Table 6.5).

Table 6.4: Treasury Staff Diversity as at 1st February 2006*

Range	Headcount Staff number	% Women	% Declared Ethnic Minority Background	% with declared disability
A	10	70.0	40.0	40.0
B	146	70.5	35.6	8.0
C	145	52.9	32.1	5.0
D	386	39.3	15.6	3.0
E	327	35.4	4.9	1.0
F	92	39.6	2.2	2.2
G	22	31.8	4.5	0
H	4	25.0	0	0
Permanent Secretary	2	0	0	0
TOTAL	**1135****	**44%**	**16%**	**3%**

**Please note that not all staff declare their ethnic background or whether they have a disability.*

***Headcount figure not Full Time Equivalent (FTE). Does not include students, special advisers or staff on loan or secondment out of the Treasury.*

Table 6.5 Treasury Recruitment by Gender, Ethnicity and Disability for calendar year 2005

Range	Numbers recruited	% Women	% Declared Ethnic Minority Background	% with declared disability
A	1	0	0	0
B	39	66.7	41.0	5.1
C	27	48.1	40.7	0
D	126	42.9	16.7	2.4
E	61	39.3	11.5	0
SCS	11	45.5	0	0
TOTAL	**265**	**46%**	**19%**	**2%**

[4]The Treasury is a member of Race for Opportunity (RfO) and participates in RfO's annual benchmarking survey. Further details are at www.raceforopportunity.org.uk

[5]The Treasury, along with 80 other public and private sector organisations, participated in the Employers' Forum Disability Standard 2005 benchmarking exercise. The Treasury scored well above average in a number of the areas measured. Further details are available at http://www.employers-forum.co.uk/www/standard/index.html

6.20 In addition the Treasury measures staff attitudes of different groups through its annual staff survey and benchmarks its approach to diversity with external best practice. The Treasury took part in the second Stonewall benchmarking exercise coming in the top group of employers for gay people[6].

Increasing professionalism

6.21 To achieve its objectives successfully, the Treasury must, along with Government as a whole, strive continuously to increase professionalism. The department is implementing the civil service wide **Professional Skills for Government** agenda to ensure it possesses the necessary skills and experience required by a high performing finance and economics ministry. Even as overall staffing levels have fallen, the number of professionally trained economists in the Treasury has risen from 60 to 140 in the past 25 years. In 2005 62 per cent of staff were in the Policy Analyst grades: 33 per cent at Range D (HEO/SEO) and 29 per cent in Range E (Grade 6 and 7). Around 20 per cent of policy staff are professional economists, increasing to 30 per cent of all Senior Civil Service staff.

6.22 In order to deepen policy making expertise, the **Government Social Research Unit** led by Sue Duncan, the Chief Government Social Researcher, transferred from the Cabinet Office to the Treasury in March 2006. For the first time the professional units for economics and social research are located together. Following the recruitment in September 2004 of Mary Keegan, head of the Government Finance Profession, the Treasury is also making substantial progress in improving financial management skills both in the department and across Government.

6.23 As well as recruiting staff with the appropriate skills, the Treasury is committed to enabling all of its staff to continuously develop and enhance their knowledge and skills. **Effective leadership** in the Treasury is vital to deliver objectives, targets and efficiency improvements while leading and managing change to achieve public service reform. The Treasury Leadership Development Programme for the Treasury Senior Civil Service includes quarterly leadership events, which provide an opportunity for the leadership group to continue to develop as leaders and shape and drive forward the Treasury's business.

6.24 To **develop the most talented staff**, the Treasury operates a programme of Development Centres which enable staff who are likely to be, or have recently been, promoted to Range E (Grade 7) to identify any development needs. A similar programme of Development Centres called "Prospects", is run for business support staff with potential for promotion to Range D (HEO/SEO).

6.25 As part of the Professional Skills for Government agenda, Treasury senior management is committed to promoting **interchange** with other government departments, as well as the wider public, voluntary and private sectors. 95 per cent of staff have worked outside the department (compared with a Whitehall target of 75 per cent) and 75 per cent have experience outside Whitehall (compared to a target of 65 per cent). At the end of 2005-06 14 per cent of Treasury staff were out on loan or secondment, and 17 per cent of current staff are on loan or secondment into the Treasury.

6.26 To build on these activities, the Treasury is this year undertaking a review of its **Workforce and Skills Strategy** in order to harness more depth and breadth of experience within its workforce, and enhance management capabilities. This strategy is currently being developed to accommodate the requirements of Professional Skills for Government and provide staff with access to relevant and effective development opportunities clearly linked to Treasury business objectives, both for their current role and future progression. The Treasury is also working to improve its knowledge management systems further to enhance professionalism.

Transforming corporate services

6.27 The Treasury is committed to ensuring that its corporate services are effective and efficient. This year has seen progress in a number of areas, and further progress is expected next year.

Human Resources (HR) and Information Services (IS)

6.28 The Treasury has continued to build on the achievements reported in the 2005 Departmental Report in this area. The Treasury's HR function has been transformed from a relatively reactive and process oriented function to one that adds greater value in proactively supporting the Treasury in achieving its strategic goals.

6.29 HR staffing has been reduced by 25 per cent since April 2004, while the quality of HR services has improved. For example HR offers a much wider range of recruitment tools in-house, such as psychometric testing and assessment centre management, reducing the need for external consultant support and the associated costs.

6.30 In early 2005 the IS team underwent a further review which evaluated the role of IS in the Treasury. This included the development of a new overall strategy for IS, and review of the services provided to the Treasury. Staff numbers in IS were reduced by a further 10 per cent (building on previous reductions of 24 per cent) as a result of the reorganisation.

[6] The Treasury has participated in Stonewall's Workplace Equality Index for the previous two years 2004 and 2005 (i.e. since the Workplace Equality Index began). In both years the Treasury has been ranked in the top 100 employers participating in the survey. Further details are atwww.stonewall.org.uk/workplace/33.asp

6.31 The Treasury's IS team will continue with the implementation of simplified processes, policies and procedures. These are important to enable a greater standardisation and certainty of service, improved security and more economic procurement.

6.32 Corporate services functions across Treasury Group are now looking at possibilities for improving efficiency further including options for integrating their operations. This work will put us in a good position in future spending periods to consider buying in services from larger Whitehall Departments, when enhanced shared services offerings are available.

Finance

6.33 The Treasury underwent a **Financial Management Review** in the summer of 2005 (as announced for all Government Departments in the 2004 Spending Review). Jon Thompson, Finance Director at Ofsted, led the work and identified some positive approaches and recent improvements in financial management in the Treasury. The Review recommended further action to develop a fully integrated business and resource planning model across the Treasury Group and to strengthen the corporate governance of the Group. The Treasury Board approved a new business and resource planning model in September 2005, which has been used for corporate planning from financial year 2006-07. The Review also recommended enhanced governance for the exchequer funds and this is to be put in place in the coming year.

6.34 During the year, the Treasury's own Oracle accounting system was successfully upgraded and OGC are adopting it from April 2006, so that there will be a single accounting system across the Treasury Group for all domestic financial transactions and information. Future plans aim to achieve efficiency savings through the standardisation of policy and processes across the finance functions of all three group bodies. As with HR and IS, the finance function intends to consider buying in services from larger departments when appropriate offerings are available.

Risk management

6.35 To improve **risk management**, Treasury Internal Audit expanded its workload, providing consulting and advisory support to a number of financial and risk management projects in the department, as well as providing a positive assurance on risk, control and governance in support of the Accounting Officer's Statement on Internal Control. Treasury Internal Audit will continue the development of consulting work and its risk-based audit, to provide an independent and objective opinion to the Treasury Accounting Officer on risk management, control and governance.

Shared services with HM Revenue and Customs

6.36 The Treasury and HM Revenue and Customs have taken advantage of their co-location by bringing together a number of services. During 2005-06 the Treasury has looked at ways of improving the correspondence handling processes of both departments in order to achieve further improvements for those who communicate with us. As of April 2006, the teams formally merged which will both improve the service provided, and provide efficiency savings. Furthermore, Pitney Bowes provide mail, goods and portering services for both the Treasury and HM Revenue and Customs, and there is also a joint service for Health and Safety.

Communicating effectively with the public and Parliament

6.37 The Treasury aims to respond to at least 80 per cent of all **correspondence** received within 15 working days of receipt. Performance has been steadily improving since 1999-2000 when less than 50 per cent of replies met that target. During 2005-06 overall performance was 81 per cent against receipts of 13,500 letters and 17,500 emails from Members of Parliament and the general public. In additions the Treasury fielded 20,000 general telephone enquiries.

6.38 Treasury Ministers attach importance to answering written **Parliamentary questions** promptly and the department has again raised its internal targets for answering on time. During 2005-06 overall performance was 81 per cent. In the 2004-05 session, which ended in April 2005 ahead of the General Election, 79 per cent of House of Commons named day questions were answered within the recognised timescale, as were 84 per cent of ordinary written questions and 96 per cent of House of Lords questions. The corresponding figures for the 2005-06 session up to the beginning of the Easter 2006 recess were 71 per cent, 80 per cent and 96 per cent against targets of 70 per cent, 80 per cent and 95 per cent respectively.

6.39 The **Freedom of Information Act** came into force in January 2005. During the year to end December 2005, the department received 1208 requests for information. The Act requires that departments measure both speed and the qualitative nature of responses in terms of the information released.

6.40 On speed, the Treasury average for the year as a whole was:

- within 20 days - 50.6 per cent; and
- within the permitted time extension where a public interest test needs to be assessed – 77 per cent.

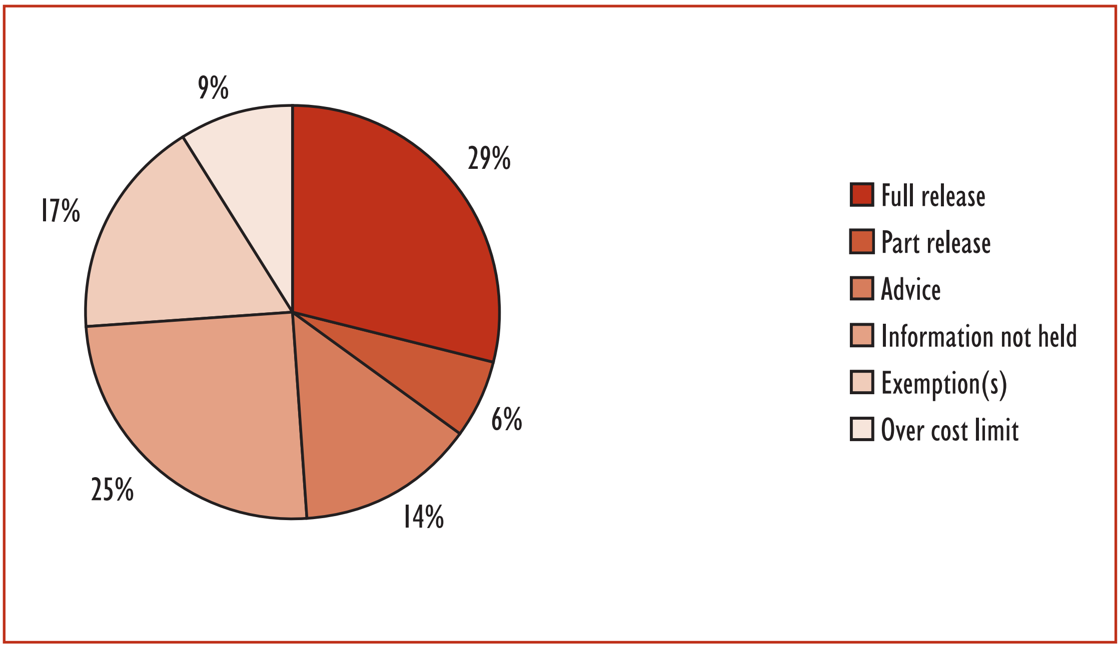
6.41 The department's speed of response improved during 2005 and further improvements are expected next year.

6.42 On the qualitative nature of our responses the Act requires that departments classify responses to requests by:

- how many releases of information are made;
- how many cases where an exemption is applied (exemptions permit departments to withhold some or all of the information sought);
- help and advice given to requestors, for example on where to look for information if its already published;
- replies that confirm that no information is held; and
- requests that are too large to be processed within the cost limits established by the Act.

6.43 The chart below shows the nature of responses from the Treasury during the calendar year 2005.

Chart 6.6: Qualitative nature of responses to requests for information



6.44 Finally, the **Treasury's external website**[7] has continued to attract record levels of website traffic, from 45 million page views in 2004 to 50 million in 2005. Over the past year the website has provided a robust, reliable and up-to-date web presence for the Treasury, publishing content for high profile events such as the Budget, G7 Presidency, UK Presidency of the EU, and the Advancing Enterprise Conference.

Supportive and sustainable working environment

6.45 The Treasury provides a wide range of support to staff. It has family friendly policies, including a subsidised holiday play scheme, and flexibility in working hours and patterns open to all staff. It also has a bright modern and open plan office environment with on site gymnasium, staff restaurant, social facilities and internet café.

6.46 The Treasury is committed to **sustainable development**, playing a key function in the UK's sustainable development action plan, and striving to reduce the impact of its operations on the environment[8].

6.47 The Treasury also actively manages **health, safety and well being**, and has a full time welfare officer. The Director of Operations is a Board-level Champion for health and safety. In the calender year 2005 accidents involving Treasury staff increased compared with 2004. There were twenty accidents being reported by staff in 2005. The total number of reported accidents, included those experienced by contractors (kitchen staff for example) was twenty-six.

[7] http://www.hm-treasury.gov.uk
[8] The HM Treasury sustainable development action plan was published on Friday 17 March and can be found at http://www.hm-treasury.gov.uk/media/089/DA/sustainabledev_170306.pdf

7 Executive Agencies and Offices

United Kingdom Debt Management Office (DMO)

The DMO contributes to the following Treasury Objectives (among others):

Objective I - Sound public finances

Objective VI - Improving cost-effectiveness of public services

There are no individual PSA targets directly relating to the DMO

Office of Government Commerce (OGC)

The OGC contributes to the Treasury Objective VI

PSA 9 - Efficiency

PSA 10 - Procurement Savings

UK DEBT MANAGEMENT OFFICE (DMO)

Aims and Objectives

7.1 The United Kingdom Debt Management Office (DMO) was established on 1 April 1998 and is an executive agency of the Treasury specialising in the delivery of Treasury management services and related policy advice to central government. The DMO performs these functions with a view to contributing to the Government's objectives of, among other things, achieving sound public finances and improving the cost effectiveness of public services.

7.2 Since July 2002, the Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) have been integrated within the DMO. The main objective of the PWLB is to lend capital sums to and collect repayments from local authorities and thereby minimise local authorities' cost of borrowing. The main objective of CRND is to provide a fund management service to public sector clients.

7.3 The DMO has a number of objectives through which it supports the wider Treasury objectives. The DMO's objectives for 2005-06 are detailed in Table 7.1.

Table 7.1: DMO Objectives

	DMO Objective
1	To develop, provide advice on and implement HM Government's debt management strategy.
2	To develop, provide advice on and implement HM Government's cash management requirements.
3	To advise on the development and implementation of HMT's strategy for managing HM Government's balance sheet to secure sound public finances.
4	To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.
5	To provide a cost-effective lending service to local authorities through the Public Works Loan Board.
6	To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.
7	To manage, operate and develop an appropriate risk and control framework.
8	To support efficiency, stability, fairness and innovation in the financial markets and to work towards best domestic and international practice in the way the DMO's objectives are delivered.

Organisational Structure

7.4 There are two main business areas in the DMO: policy and markets; and operations and resources. These areas are in turn split into a number of functional teams across which there is substantial cross-team working.

7.5 The Managing Board is the DMO's senior management group, and comprises the Chief Executive, Deputy Chief Executive, Chief Operating Officer and the following non-executive directors: Colin Price, formerly Finance Director of Shell Pensions Management Services; Brian Larkman formerly Global Head of Money Markets at National Westminster Bank; and, from the Treasury, Sue Owen. Colin Price is also Chairman of the DMO's Audit Committee.

7.6 The Managing Board is supported by a range of internal cross-cutting committees, including the debt management, cash management, fund management, and risk committees (see organisational chart at the end of this section).

Achievements

7.7 Full reporting of performance against the DMO's 2005-06 strategic objectives is given in the tables at the end of this section.

7.8 The Government operates a highly transparent debt management and issuance regime with most auction dates published up to one year in advance.

7.9 Gilt sales in recent years have increased as follows: £26.3 billion in 2002-03, £49.9 billion in 2003-04, £50.1 billion in 2004-05 and £52.3 billion in 2005-06. Partly as a consequence of this, turnover in the gilts market has grown, with average daily turnover up from £8.7 billion in 2002-03, £11.5 billion in 2003-04, and £12.8 billion in 2004-05 to £13.3 billion in 2005-06.

Future Plans

7.10 The DMO's 2005-06 business plan sets out details of key initiatives on which it intends to focus in the period to 2008, and groups these under the following headings:

- to continue to deliver its core operations and activities to the excellent standard required – which means ensuring that the debt management, cash management, fund management and PWLB functions, together with the infrastructure teams that support them, continue to deliver their respective objectives to the highest standards;
- to further the development of debt and cash management strategy in particular where this identifies initiatives that may provide cost and risk minimisation benefits for HM Government – which covered, for example, the re-introduction in 2005 of gilts with ultra long maturities;
- to improve efficiency and to reduce operational risk where possible – which includes initiatives such as continuing to review and enhance the DMO's business continuity arrangements and business delivery capability; and
- to ensure the core values of the DMO continue to make it an excellent place to work.

Main Achievements

1. Annual Debt Management Remit	
Commentary	The gilt sales target for 2005-06 was met through the conduct of 25 outright auctions (15 conventional and 10 index linked) and one syndicated offer. Outright sales of £53.3 billion were planned in the remit for 2005-06, published on 16 March 2005. The sales target was then reduced to £51.1 billion in a revision to the remit published on 20 April 2005 with the outturn of the Central Government Net Cash Requirement (CGNCR) for 2004-05. The target increased again to £52.3 billion in the Pre-Budget Report on 5 December 2005. Gilt sales totalled £52.3 billion; the composition of issuance was £41.5 billion of conventional stock and £10.8 billion of index-linked gilts.

2. Annual Cash Management Remit	
Commentary	The Debt Management Account successfully balanced the National Loans Fund on every business day (within a small variance range).

3. Local Authorities	
Commentary	During the year the PWLB met its operational performance targets. Outstanding loans represented a Government asset of nearly £47 billion. The Debt Management Account Deposit Facility (DMADF), through which Local Authorities can deposit cash with the DMO, continued to operate in the period.

4. Annual Debt and Cash Management Remit Advice

Commentary

The DMO contributed specific advice in a number of areas of the 2005-06 remit:

- the split between index-linked and conventional gilts and, within conventionals, the maturity split between shorts, medium and longs;
- the introduction of ultra-long (circa 50-year) gilts;
- the size and timing of auctions;
- the split between an increase in the Treasury bill stock and a run-down in the DMO's net cash position as elements of short-term debt financing; and
- the range of contingencies to be implemented in the event of changes to the Government's financing requirement.

The DMO also contributed substantially to preparation of the 'Debt & Reserves Management Report 2006-07' which was published on 22 March 2006.

The DMO reported performance against its remit to the Treasury on a monthly basis, and on developments in the gilts portfolio and compliance against its published targets on a quarterly basis.

5. Her Majesty's Government Balance Sheet Management

Commentary

The DMO issued the first 50-year conventional gilt since 1960 in May 2005 with the auction of 4¼ per cent Treasury Gilt 2055. In September 2005 it issued the world's longest dated sovereign index-linked gilt (1¼ per cent Index-Linked Gilt 2055) by means of a syndicated offer. This was the first time a gilt has been issued by syndication and its use reflected the unique circumstances associated with the launch of the 2055 index-linked gilt. Subsequent issues have been by auction which remains the DMO's preferred issuance method. The 2055 maturity gilt was also the first index-linked gilt to use a 3 month indexation lag (now considered international best practice).

Throughout the year, the DMO has continued to work with National Savings & Investments in their programme of Guaranteed Equity Bond issuance, by executing equity index swaps to hedge the Government's exposure to movements in the FTSE-100.

The gilt portfolio cost-at-risk modelling initiative, which aims to develop a simulation model that can be used to quantify the long-term cost-risk trade-off involved in financing the government debt management, has been developed further.

6. Agency Resourcing and Management

Commentary

The DMO continued to deliver the agreed programme of savings as part of the Whitehall-wide Efficiency Review.

As a re-accredited member of "Investors in People" during 2005, the DMO has continued to support the training and development of staff to achieve organisational objectives, including support for professional qualifications and the development of a corporate training programme.

7. Risk and Financial Management

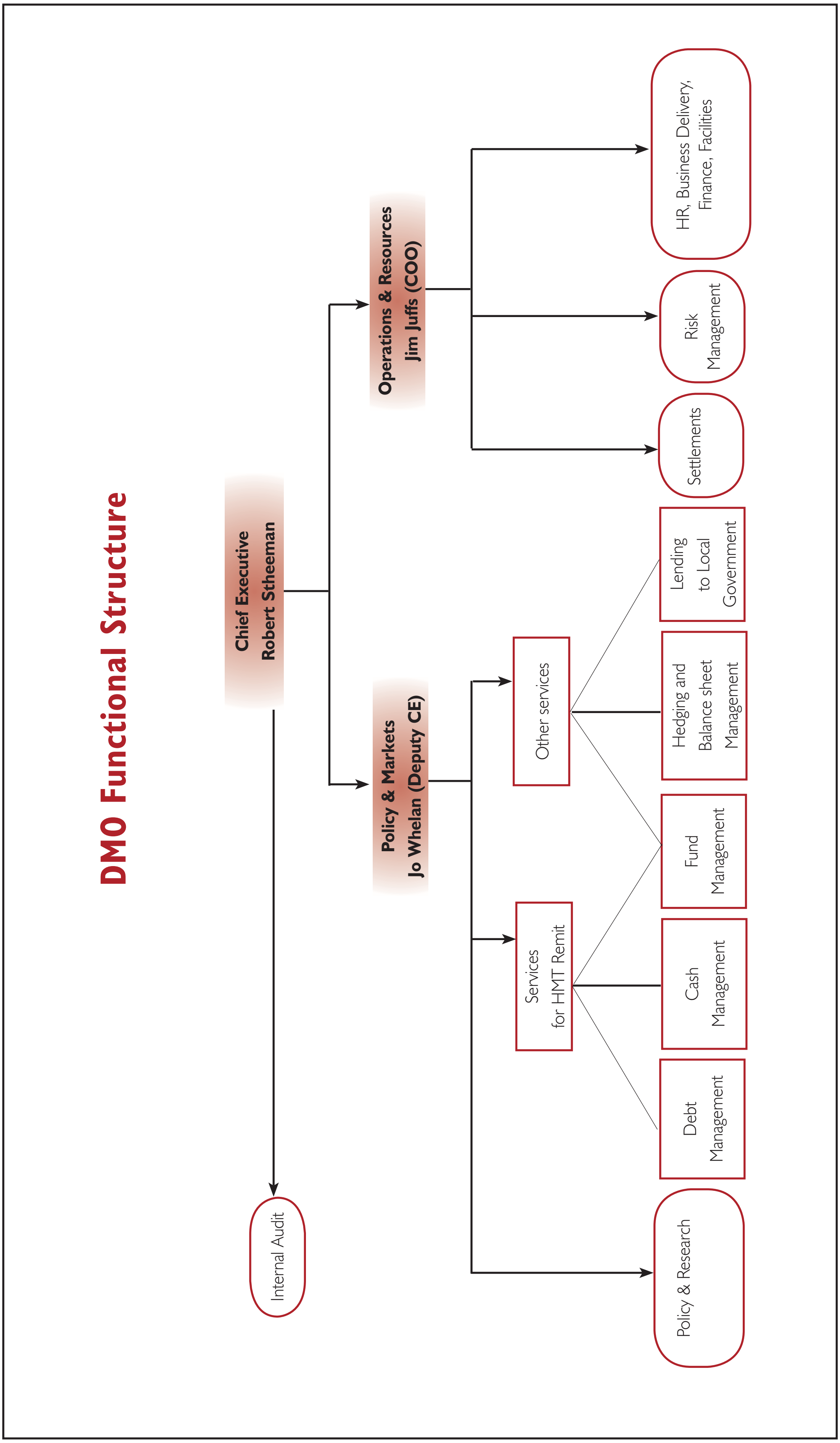
Commentary

The DMO continues to meet this wide-ranging objective with the aim of supporting the Accounting Officer and the Managing Board in the effective stewardship of the agency. Among the routine and non-routine initiatives delivered this year are:

- implementing a project to enhance its quantitative risk analysis capability;
- publishing: the Annual Report of the PWLB in June 2005; the DMO Annual Review in July 2005; and also in July 2005 the audited DMA accounts and administrative accounts for 2004-05. These are all available on the relevant websites.[1]

The DMO has commissioned an automated reporting system and data warehouse for its website. It is anticipated that this will be launched in the first half of 2006. The new website will result in the merger of the existing DMO, PWLB and CRND websites.

[1] http://www.dmo.gov.uk, http://www.crnd.gov.uk, http://www.pwlb.gov.uk


DMO Functional Structure
Chief Executive
Robert Stheeman
Internal Audit
Policy & Markets
Jo Whelan (Deputy CE)
Operations & Resources
Jim Juffs (COO)
Policy & Research
Services
for HMT Remit
Other services
Debt
Management
Cash
Management
Fund
Management
Hedging and
Balance sheet
Management
Lending
to Local
Government
Settlements
Risk
Management
HR, Business Delivery,
Finance, Facilities

OFFICE OF GOVERNMENT COMMERCE (OGC)

7.11 OGC is an independent Office of the Treasury with its own Chief Executive appointed at Permanent Secretary level. The organisation plays an important role in the Government's efficiency and modernisation agendas. OGC has a Supervisory Board chaired by the Chief Secretary to the Treasury and made up of Permanent Secretaries, including the Cabinet Secretary, the OGC Chief Executive, the Head of the National Audit Office and senior external representatives.

7.12 The OGC Chief Executive also has a Procurement Advisory Group (CEPAG), which is made up of a wide representative base of departments and the wider public sector undertaking the full range of commercial activities. OGC is governed by the OGC Board which is made up of the Chief Executive, OGC executive directors, the Chief Executive of OGCbuying.solutions, and two non-executive directors. The OGC organisational chart can be found at the end of this section.

7.13 OGC's mission is to work with the public sector as a catalyst to achieve efficiency, value for money in commercial activities and improved success in the delivery of programmes and projects.

Aims & Objectives

7.14 OGC's vision is to be regarded as a trusted advisor to public sector organisations in supporting the successful and efficient delivery of their objectives. OGC's three main priorities for the 2004 Spending Review (SR2004) period are to:

- improve public services by working with departments to help them meet their efficiency targets - amounting to £20 billion a year by 2007-08[2];
- deliver a further £3 billion saving by 2007-08 in central Government civil procurement (building on the savings achieved since 2000) through improvements in the success rate of programmes and projects and through other commercial initiatives[3]; and
- improve the success rate of mission critical programmes and projects.

7.15 OGC supports the achievement of these targets through concentrating its efforts in a wide ranging programme supporting three significant activities in public sector organisations – improving efficiency, programme & project management and procurement.

7.16 OGC's executive agency, OGCbuying.solutions, provides direct procurement services to the public sector. The primary purpose of the Agency is to maximise the value for money obtained by the public sector, by co-ordinating demand and through the procurement and supply of goods, materials, plant, equipment, products, fuel, energy and other services under arrangements that provide quality assurance and comply with public purchasing policy and regulations, including those of the EU.

7.17 OGCbuying.solutions promotes its services as either Catalist framework agreements or Managed Services.

The Catalist framework agreements include:

- Information Technology;
- Payment Cards;
- Professional Services;
- Telecoms Services; and
- Facilities Support.

Managed Services include:

- Managed Telecommunications Services;
- Energy;
- Government Secure Intranet (GSI)
- eCommerce; and
- Travel.

Further information on OGCbuying.solutions is available on its website[4].

Achievements

7.18 Working with departments, OGC has continued its delivery of efficiency savings, Value for Money gains, and improvement in the performance of Mission Critical Projects.

OGC's achievements this year include:

- OGC has responsibility to drive forward and coordinate delivery of £21.5 billion worth of efficiency gains by the end of the SR2004 period. The Chancellor announced in the 2006 Budget that the Government has reported provisional efficiency gains of £6.4 billion, over 40,000 headcount reductions (against a target of 84,000 by 2007-08) and over 6,600 relocations out of London and the South East (of 20,000 by 2010) by the end of 2005.

[2] SR2004 PSA target 9
[3] SR2004 PSA target 10
[4] http://www.ogcbuyingsolutions.gov.uk/default.asp

- Building upon its success in delivering value for money gains, OGC has reported a further £2.3 billion saving during 2004-05 in central Government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives. This builds on the £2 billion achieved in 2003-04 and the £1.6 billion in SR2000.

- In the Autumn of 2005 OGC started the first of a series of rolling e-auctions for IT hardware. OGC is taking the lead to aggregate demand across the public sector with a range of organisations from the health and education sectors as well as local and central government, collaborating to benefit all. The four auctions run this year have delivered gains of £10 million on a pre auction value of £37 million.

- Change agents have been created to speed up cross government efficiencies in the areas of procurement, relocation, productive time (increasing the proportion of time spent by professionals on delivering front line services) and corporate services. Of the £6.4 billion efficiency gains reported to December 2005, around £2.7 billion were from procurement.

- OGC continues to use partnership arrangements to support, promote and maintain best practice standards that enable efficient use of resources on programmes, projects and managing services. Examinations in PRINCE2, its world-class project management guidance, total 179,663 from January 1999 to December 2005. International usage demonstrates the value of these standards. PRINCE2 is being adapted and implemented by the UN's Development Programme and is due to be rolled out across the 136 country offices. It is expected to help improve the success of much-needed projects in poorer communities around the world.

- OGC's Consultancy and Interim Support Team has undertaken 112 assignments in the period 1 April 2005 to end December 2005. Clients include central, civil government departments, executive agencies, NDPBs, and wider public sector organisations.

- Over 350 Gateway™ reviews were completed in 2005-06, 37 per cent more than in the previous year. In excess of 1200 reviews have been completed since February 2001, covering more than 600 projects and programmes. These numbers have increased every year since the Gateway process was launched in 2001.

- Programme Engagement Directors have been appointed for all Key Mission Critical Programmes as the focal point for OGC work with the Senior Responsible Owner and programme team, with work progressing on engagement including a trajectory of milestones, an action plan and the appointment of Non-Executive Board Members.

- OGC published UK procurement regulations implementing the revised EU procurement directives by the due deadline of January 2006.

- In the Kelly Programme (increasing competition and improving long-term capacity planning in the government market place), research findings and proposals for better strategic management of the construction market were presented to industry and Government in May 2005. Both were met with broad support from all parties.

- The Better Regulation Task Force (BRTF) Programme which sets out to reduce the barriers for small businesses who wish to supply to government has successfully rolled out on a national basis several of the recommendations tested in the West Midlands Small and Medium Enterprise (SME) Procurement Pilot Project. These include the introduction of a simplified Pre-Qualification Questionnaire (PQQ), training sessions for public procurers, a project to open up supply chains and the introduction of a National Opportunities Portal where all public sector procurers will be able to advertise lower value contracts.

- Working closely with the Cabinet Office e-Government Unit, OGC is supporting the Information and Communications Technology (ICT) Supplier Management Initiative which, as well as enabling a better understanding of public sector supply and demand pressures, will provide a more rigorous view of key suppliers' performance through a common performance assessment framework.

- In response to the UK Government Sustainable Development Strategy *Securing the Future*, OGC has produced a ten-point action plan setting out OGC's commitment to the sustainable development agenda. This includes contributions to the Sustainable Procurement Task Force and the provision of advice and guidance to departments demonstrating how sustainable procurement is consistent with the efficiency agenda and EU procurement rules.

More detail on the activities and achievements of OGC can be found on the OGC website[5].

[5]http://www.ogc.gov.uk

Future Plans

7.19 Since its creation in 2000, OGC has worked with and through Government departments to deliver substantial advances and improvements in procurement and in programme and project management. Following the 2004 Spending Review, OGC's remit has been extended to the whole of the public sector, including local government, education, the health service and the police.

7.20 OGC will be taking a more demanding stance in central government and the wider public sector; to deliver a more planned approach to shared services (working with the eGovernment Unit in the Cabinet Office) and to procurement in central government and in local government (with the Office of the Deputy Prime Minister); and will identify opportunities for a more planned approach to other aspects of the Efficiency Programme.

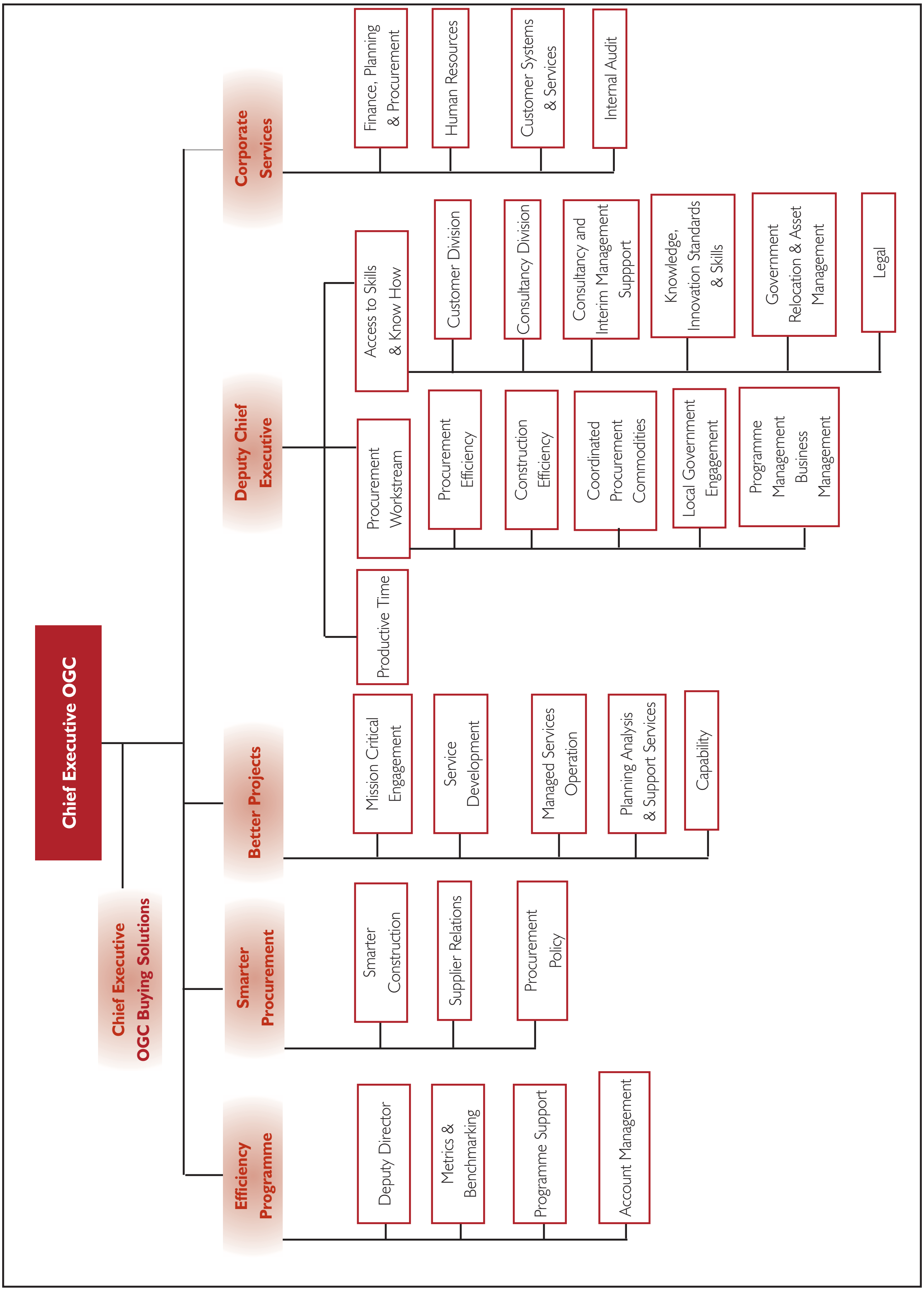
7.21 When working with the wider public sector OGC's approach will not be prescriptive but will nevertheless maintain focus on the development of a culture of improvement.

7.22 In 2006-07 OGC will continue to focus key activities on our three top-level targets which help departments to realise £21.5 billion in Efficiency Gains by 2008; to achieve a further £3 billion Value for Money savings over the SR2004 period; and to improve the success rate of Mission Critical Projects.

7.23 OGC collaborates with other parts of the centre such as the Treasury, the Cabinet Office's e-Government Unit and the Prime Minister's Delivery Unit to achieve the Government's delivery and reform priorities. Through links with these and other central organisations OGC will ensure that there is a consistent strategy of engagement with other parts of the public sector and a minimised burden on partner organisations.

7.24 OGC staff have a wide range of experience in successful procurement, delivering excellent project management and achieving greater efficiency. Staff come from a variety of backgrounds in the private and public sectors, and OGC are improving the depth of experience in the wider public sector. OGC also manages a large team of independent consultants who advise on and manage delivery at strategic and operational levels and who bring a wide range of experience across the public and private sectors.

OGC STRUCTURE



A1

Performance against 2004 Spending Review, 2002 Spending Review and 2000 Spending Review PSA and SDA 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

SR2004 PSA Target	1 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.
SR2002 PSA Target	1 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.
SDA Targets	B1.1 By setting a stable and prudent macroeconomic framework, which fosters economic stability and reduces the variability of output and inflation; and by designing evidence-based policies to support sustainable increases in productivity growth and the employment rate. B1.2 By ensuring that fiscal projections and policy decisions are based on considered economic forecasts underpinned by expert assessment of economic developments, including trend growth and productivity; and using forecasts as a baseline against which to weigh up the risks to macroeconomic stability.
Performance indicator	Trend rate of output (excluding oil and gas extraction) growth over the complete economic cycle. (Same for both PSA targets) Source: Trend growth estimates made by HM Treasury based on Office for National Statistics data.
Commentary 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 2¼ 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. So far in the economic cycle (from 1997H1 - now judged as the start of the current cycle - to 2005Q4) growth in actual real non-oil output (Gross Value Added - GVA) is estimated to have averaged 2.80 per cent a year. This compares with 2.55 per cent over the previous cycle. The Treasury estimates the economy to have been below trend in 2005Q4. So 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.
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 2005Q4 growth has averaged 2.80 per cent a year, compared with 2.55 per cent over the previous cycle. The Treasury estimates the economy to have been below trend in 2005Q4. 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**.
Quality of data systems	All the underlying data used in the trend growth calculations 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 (Same as 2002 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)).
SDA Targets	B2.1 By setting clear, long term policy objectives. B2.2 By following predictable, well-understood procedural rules for fiscal and monetary policy making and ensuring the two are co-ordinated effectively.
Performance Indicator	12 month increase in the CPI. 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 January 2005 to January 2006, CPI inflation has been in the range 1.6 to 2.5 per cent. The remit of the Monetary Policy Committee sets a symmetric inflation target, in which an undershooting of inflation is taken as seriously as an overshooting. Since the CPI target was introduced in December 2003, inflation has averaged 1.7 per cent, and not deviated outside the threshold of 1 per cent above or below the target which would trigger an open letter from the Governor of the Bank of England to the Chancellor.
Quality of data systems	The CPI data are sourced from the Office of 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 (same as 2002 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.
SDA Targets	B3.1 By planning and controlling public expenditure within firm overall spending limits and revenues to meet the fiscal rules. B3.2 By continuously monitoring the state of the public finances to ensure that any risks to the target are identified as soon as they emerge, and by regularly updating, and publishing forecasts of government revenues and spending in accordance with the provisions of the Code for Fiscal Stability, including cautious assumptions audited by the National Audit Office (NAO).
Performance Indicator	Public sector net debt as a percentage of Gross Domestic Product (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** Net debt will be maintained below 40 per cent of GDP over the economic cycle, meeting the sustainable investment rule. Public sector net debt was 35.0 per cent of GDP in 2004-05, and is projected to rise slowly, as the Government borrows modestly to fund increased investment in public services, stabilising at 38.4 per cent of GDP from 2009-10. The Budget projections show that the Government is meeting the golden rule, on the basis of cautious assumptions, with an average annual surplus on the current budget over the current economic cycle of around 0.1 per cent of GDP.
Quality of data systems	Underlying data sourced from the Office for National Statistics.

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)).
SR2002 PSA Target	5 Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Joint target with the DTI).
SDA Targets	B5.1 By bringing forward a continuing programme of microeconomic reform targeted at the five drivers of productivity performance. B5.2 By ensuring that new and previous reforms are successfully implemented and delivered. B5.3 By working with departments to reform the public services to improve performance and productivity.
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 distortions created by cyclical factors, UK performance is assessed between on-trend points as defined in the Trend Growth estimate (see quality of data systems). The most recent UK productivity 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 over the first half of the current economic cycle (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 narrowing the international productivity gap. Since 1995 the UK has halved the output per worker gap with France and closed the gap with Germany. Although the gap with the US remains significant, the UK is the only country in the G7 to have kept pace with the US. Initiatives announced in Budget 2006 will further drive productivity growth across the UK. More details are available on the HM Treasury website[1].
Quality of data systems	The Treasury monitors progress on the productivity gap with data published by the Office for National Statistics on the ICP[2] 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 B2 of Budget 2006) 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 this methodology.

[1]http://www.hm-treasury.gov.uk
[2]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

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 (DWP)).
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 DWP).
SDA Targets	B7.1 By maintaining macroeconomic stability. B7.2 By working with the DWP to develop cost effective policies to help people move from benefits into work, and to ensure that such welfare to work programmes are delivered in a cost effective manner. B7.3 By establishing appropriate incentives to work.
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 (GB), based on the International Labour Organisation (ILO) definition. 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 quarterly data for December 2005 to February 2006, gives a GB employment rate of 74.6 per cent and a GB unemployment rate of 5.2 per cent. Given the current position in the economic cycle there is expected to be a rise in employment by the end of the cycle. This is because the Treasury currently estimates 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 the SR2002 target is spring (March - May) 2003 and for the SR2004 is spring (March - May) 2005.
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	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 (ODPM) and the Department of Trade and Industry (DTI)).
SR2002 PSA Target	6 Make sustainable improvements in the economic performance of all English regions and over the long- term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Joint target with the ODPM and DTI).
SDA Targets	B6.1 By furthering cross-departmental research to identify the causes of regional disparities and the most effective policy measures for reducing such disparities. B6.2 By generating relevant information on regional priorities and on the regional impacts of departmental policies. B6.3 By giving a regional focus to the outcomes of future Budget and Spending Review processes, using information on regional priorities, on regional impacts of departmental activities, and on the most effective policy measures, including the scope for further devolution and decentralisation, for addressing regional disparities. B6.4 By continuing to foster strong regional institutions, maximising their freedom and flexibility to deliver their own solutions at local level.
Performance Indicator	The main indicator for this target is Gross Value Added (GVA) per capita 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: • both total Gross Value Added (GVA) growth and growth in GVA per capita were even higher in all of the bottom six regions than in the average of top three (London, South East and East) for 2004 (the latest year for which we have data). Average GVA growth per capita for the top three regions was 3.5 per cent compared to 4.6 per cent for the bottom six regions; and • the North East had the highest growth in GVA per capita in 2004 of 4.9 per cent followed by the West Midlands at 4.8 per cent. The regional economic performance PSA also aims to increase growth in all the English regions over the whole economic cycle. Even though recently the UK economy as a whole has been slowing, growth in nominal GVA per capita in 2004 was maintained at a higher rate than past trends in the North East and East Midlands regions. However, it was lower in the East of England, South East, London and South West.
Quality of data systems	Performance against this target is measured through estimates of the trend rate of growth in GVA per capita in each region for the period 2003-08. The gap in growth rates is measured by comparing the average growth rate of regions that currently have above average GVA per capita with the average growth rate of regions that currently have below average GVA per capita. The regional GVA series is produced by Office of National Statistics and meets all National Statistics quality criteria.

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.
SR2002 Objective	V Secure an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest.
SDA Targets	B Objective 5.1 By implementing with the Financial Services Authority (FSA), the new legislative and regulatory framework established under the Financial Services and Markets Act 2000. B Objective 5.2 By maintaining, with the Bank of England, FSA and authorities abroad, the framework for safeguarding financial stability. B Objective 5.3 By improving the transparency, accessibility and responsiveness of retail financial markets, especially in following up reviews such as that undertaken by Ron Sandler into savings markets and in on-going policy work. B Objective 5.4 By achieving, with our European partners, the EU targets for the single market in financial services (2003 and 2005) and making progress in the WTO round towards more global open trade. B Objective 5.5 By continuing to improve national and international systems for fighting crime, especially money laundering and terrorist financing.
Performance Indicator	N/A
Commentary	**On course** Action to meet the SDA targets above includes, among other things: • 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; • improving access to financial services using the Financial Inclusion Fund (£120m over three years), through the Financial Inclusion Taskforce, and working with banks to reduce the number of unbanked households and with other agencies to improve financial capability; • taking forward the commitment to reunite owners with unclaimed assets held by banks; • 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; • 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 the European Council of Finance Ministers (ECOFIN) in October 2005; • responding appropriately to the events of 7 July 2005 and continuing to strengthen financial sector resilience through the FSA-led Resilience Benchmarking Project and Market-wide Exercise in November; • freezing the assets of terrorists, proactively and to meet international obligations; and • the European Commission's White Paper on Financial Services Policy 2005-2010 published on 5 December 2005 strongly reflects UK policy priorities of better regulation and enforcing and implementing legislation already agreed.
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

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 (DWP)).
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 DWP).
SDA Targets	B8.1 By working with the DWP and HM Revenue and Customs (HMRC) to ensure a secure and uninterrupted family income that makes a sufficient contribution to meeting the 2004 target through tax and benefit reforms, notably through the smooth delivery of the Working Tax Credit and Child Tax Credit from 2003. B8.2 By working with the DWP to increase employment and reduce unemployment over the economic cycle (PSA 7). B8.3 For the longer term, by working with the DWP to implement the conclusions from their consultation on the measurement of child poverty.
Performance Indicator	The SR2004 target has two measures: the number of children in households with income less than 60 per cent of contemporary median, compared with 1998–99; and the number of children in households with income less than 70 per cent of contemporary median, combined with material deprivation. Low income is defined before housing costs and is reported annually in *Households Below Average Income* (HBAI). The baseline for the less than 60 per cent of median income target is 3.4 million children. As data on material deprivation only became available in March 2006, the baseline and threshold for the second measure will be set later in 2006. The SR2004 target will be measured on a UK basis. The SR2002 target referred to the number of children in low-income households both before and after housing costs, in Great Britain. The baseline was 3.1 million children before housing costs (BHC) and 4.1 million children after housing costs (AHC). Low income was defined as reported in HBAI.
Commentary	
SR2004 Target	**Not yet assessed** As the precise construction of the material deprivation indicator has not yet been determined, progress towards PSA target 7 has not yet been assessed.
SR2002 Target	**Not met** Data on the final outcome of the SR2002 PSA target 8 became available in March 2006. This shows that between 1998-99 and 2004-05 the number of children in low-income households fell by 700,000 both BHC and AHC. This equated to a 23 per cent reduction BHC and a 17 per cent reduction AHC, meaning that the target was narrowly missed on a BHC basis and missed on an AHC basis.
Quality of data systems	Performance against this target is assessed using the annual *Households Below Average Income* (HBAI) report published the as National Statistics by DWP.

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 (same as 2002 target)	8(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.
SDA Target	B4.1 By working with the International Monetary Fund (IMF) and others to promote and implement: open trade systems; measures to tackle abuses of the financial system; transparent surveillance of country policies and performance; adherence to internationally agreed codes and standards; and crisis resolution mechanisms.
Performance Indicator	Under the codes and standards initiative, the IMF and the World Bank monitor observance by countries against 12 individual codes and standards, which act as benchmarks for good practice in financial practices and structures, through production of Reports on the Observance of Standards and Codes (ROSCs). The initiative aims to strengthen the international financial architecture and reduce the likelihood of financial crises.
Commentary	**On course** As of February 2006, 130 countries (over two thirds of the IMF membership) have now participated in the codes and standards initiative. This is up from 109 in June 2004, and 94 in June 2003. 825 individual assessments, reassessments and updates have been produced. This compares with 724 in April 2005 and 605 in April 2004. Three quarters of the assessments, reassessments and updates have been published.
Quality of data systems	The IMF provides information on the number of ROSCs completed. Further information is available from their website.[3]

[3] http://www.imf.org

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(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 with Department for International (DFID)).
SR2002 PSA Target	4 – Part 2 Promote increased global prosperity and social justice by ensuring that three-quarters of all eligible HIPC countries committed to poverty reduction receive irrevocable debt relief by 2006 and working with international partners to make progress towards the United Nations 2015 Millennium Development Goals. (Joint target with DFID).
SDA Target	B4.2 By working with DFID and other partners to maximize the number of HIPCs that benefit from debt relief by 2006, through: helping HIPCs put in place and implement effective and sustainable poverty reduction strategies and encouraging donors to ensure that HIPC provides a sustainable exit from debt. In particular, working with others to ensure that three quarters of all eligible HIPC countries receive irrevocable debt relief by 2006.
Performance Indicator	HIPC: Number of countries reaching Completion Point as recorded in *Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation*, available on the World Bank website[4]. Millennium Development Goals: The Treasury and DIFD have a set of discrete indicators against which progress is monitored – these are detailed in the Technical Note[5].
Commentary	
HIPC	**On course** Most participating countries are now making steady progress towards their Poverty Reduction Strategy Papers (PRSPs) – an essential precursor to receiving HIPC relief – and a rise in countries graduating from HIPC is expected over the next two years. The Treasury's estimate, which is in line with that of the International Monetary Fund (IMF) and World Bank, is that almost all 28 countries currently receiving debt relief should have exited the initiative by the end of 2007. Progress in countries reaching Completion Point in the HIPC Initiative has not been as rapid as previously projected by the IMF and World Bank due to a combination of performance slippage and also the PRSP process taking much longer than the International Financial Institutions estimated. In addition there has been great progress with the Multilateral Debt Relief Initiative (MDRI), which has now been implemented at the IMF, with currently 19 countries benefiting from debt relief worth around $3.3 billion. Implementation of the MDRI by the World Bank and African Development Bank is also expected later this year.

[4] http://www.worldbank.org/hipc/progress-to-date/progress-to-date.html
[5] http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_technote02.cfm

Millennium Development Goals	**Slippage** Good progress has been made in some countries - for example on income poverty in Asia, and primary education in North Africa - but the global rate of progress remains too slow and uneven and in some cases countries are even moving further away from the goals. There is a need for improved policies in both rich and poor countries, and for more and better quality aid to meet the MDGs by 2015. In 2005, the EU and G8 made commitments to increase aid which are expected to deliver an additional $50 billion a year by 2010. The challenge now is to ensure that this additional aid is delivered, and used effectively to accelerate progress towards the MDGs. The Gleneagles G8 communiqué also committed countries to supporting as close as possible to universal access to HIV treatment by 2010, through mechanisms such as the Global Fund for AIDS, TB and malaria. The key challenge now is for donors to fully implement their commitments and for developing countries to develop ten-year plans to meet the MDGs. The UK Government has announced that it will enter into 10 year agreements with poor countries to finance 10 year education plans - locking in the long term commitment to delivering high quality education for all.
Quality of data systems	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. The data used in assessing progress towards the MDGs are taken from the World Bank and United Nations' agencies, who in turn use countries' own data systems. Systems for gathering data are very weak in many developing countries.

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(iii)	Working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008.
SR2002 PSA Target	4-Part 3	Promote increased global prosperity and social justice by demonstrating progress towards the Lisbon Goals by 2006, by working with our EU partners to achieve structural economic reform in Europe.
SDA Targets	B4.4	By maximising the economic benefits from enlargement and the Single Market.
	B4.5	By creating and maintaining pressure for the EU to take effective actions on competition, enterprise, innovation, skills and investment to increase private and public sector productivity and to implement measures to raise employment towards the Lisbon and Stockholm targets.
	B4.7	By working with other government departments (especially the Foreign and Commonwealth Office), EU member states, the Commission and the European Parliament towards improving the effectiveness of EC development assistance. (Joint with the Department for International Development (DFID)).
	B4.8	By working with other departments towards the achievement of the agreed target for EU average aid to reach 0.39 per cent by 2006 and the promotion of greater aid effectiveness among donors.
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. Since the Lisbon strategy was launched, important steps have been taken to reform the European economy, through modernisation of the EU competition regime, reform of the state aid rules, progress on regulatory reform, and actions in Member States to promote enterprise and employment. Nonetheless, the pace of reform must now be accelerated if an enlarged EU is to meet the Lisbon goals. EU employment stood at 63.3 per cent in 2004 (EU25), little increased over the previous three years; and the productivity gap between the EU and the US was 23 per cent in 2002 (EU15) on a per worker basis compared to 25 per cent in 1999 and 7.3 per cent (EU15) on a per hour basis in 2002 and 1999. 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, including the Austrian and forthcoming Finnish Presidencies. An assessment of progress and the Government's priorities on the economic reform agenda were set out in *Growth and opportunity: prioritising economic reform in Europe*[6] and *Long-term global economic challenges and opportunities for Europe*[7], both published by the Treasury in 2005.
Quality of data systems		Measurement of progress uses the set of structural indicators produced, maintained and developed by Eurostat, and mandated by the Council of the European Union. The data for the productivity and employment measures used for this PSA target are sourced from the Eurostat structural indicators database. EU25 data is not currently available for both productivity measures. A change in the methodology since the last Departmental Report has altered the data and these figures should supersede those quoted in 2005. Outturn data is subject to a time lag due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication.

6http://www.hm-treasury.gov.uk/media/261/64/Growth_and_Opportunity-381MB.pdf
7http://www.hm-treasury.gov.uk/documents/international_issues/int_global_index.cfm

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: • Public Service Agreement (PSA) targets (joint target with the Cabinet Office); • efficiency targets amounting to £20 billion a year by 2007-08; consistently with the fiscal rules.
SR2002 PSA Target	9 Improve public services by working with departments to help them meet their Public Service Agreements (PSA) targets, consistently with the fiscal rules. (Joint target with the Cabinet Office).
SDA Targets	HM Treasury and the Prime Minister's Delivery Unit (PMDU) will work with departments to: B9.1 ensure they have in place effective plans to deliver their PSA targets, with robust milestones and trajectories; B9.2 monitor departments' performance against their plans and their PSA targets through information gathering, regular meetings at official level, and supporting ministerial discussions; and B9.3 ensure necessary corrective action is taken when delivery is not on track.
Performance Indicator	Departmental progress towards PSA targets and efficiency delivery is reported biannually in (spring) Departmental Reports and Autumn Performance Reports. This performance information can be accessed through a single website[8]. Overall progress of the Efficiency Programme is reported through the Budget and Pre-Budget Report process.

Commentary

PSAs

On course

SR2004 set stretching outcome-focused targets for key areas of the public services. The Treasury and the PMDU 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.

Reporting on SR2004 targets is still at a relatively early stage, with most targets only commencing in April 2005. In the previous round of reporting (autumn 2005), for targets that were given overall summary assessments, a majority were reported to be on course. These represent interim progress assessments which can of course vary up to the point a final assessment is made. Estimates of overall progress at this early stage are only very broadly indicative.

The Treasury is on course to meet the related SR2002 target, to improve public services by working with departments to help them meet their PSA targets, consistently with the fiscal rules (joint target with the Cabinet Office). Although the SR2002 period ended in March 2006, data for the full period is not yet available and some targets have an end date beyond that time, so final reporting on the full SR2002 set is not yet possible. In the meantime, departments continue to publish ongoing progress in their own departmental and performance reports. In the previous round of reporting (autumn 2005) overall summary assessments were made for a majority of PSA targets. Of those, over 80 per cent were reported to be met or on course. Progress can vary up to the point that a final report for all targets is made.

[8]http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_index.cfm

Efficiency	**On course** The 2006 Budget announced that departments and local authorities have reported provisional annual efficiency gains totalling £6.4 billion, 40,400 gross workforce reductions, including 7,150 reallocations to the frontline and 6,600 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 £21.5 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. Efficiency Technical Notes set out the measures and methodologies that departments use to assess efficiency gains. These were refreshed and republished alongside the Pre-Budget Report in December 2005.

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

SR2004 PSA Target	10 Deliver a further £3 billion saving by 2007-08 in central government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives.
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).
SDA Targets	B10.1 By: i) directly supporting the successful delivery of projects and programmes by departments; ii) focusing our effort on activities that have high value and high impact for Government; and iii) assisting and leading departments in developing the level of capability they need as clients. B10.2 By: i) developing and managing the Gateway™ process; ii) improving the commercial skills available to departments; iii) improving Government ability to manage supplier relationships; iv) making the Government marketplace more attractive to suppliers in all sectors; v) developing innovative tools and techniques and more effective ways of achieving private sector involvement; vi) helping departments to embed best practice (including operational guidance) and cross-governmental lessons learned in their commercial activities; and vii) catalysing collaborative opportunities (including aggregation deals).
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	
SR2004 Target	**Not yet assessed** There will be no firm data on this target until 2005-06 performance has been assessed in 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.
SR2002 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. Central Civil Government has achieved its £3 billion target one year early - £2.3 billion of value for money gains in 2004-05 in the second year of the Spending Review period 2002 (2003-04 to 2005-06) with a total of £4.3 billion. Over £1 billion of the £2.3 billion gains are savings made by government departments and their agencies getting better deals on goods and services they buy, either via direct negotiation with suppliers or joint procurement.
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 (formerly SR2002 Objective IX)	There are no PSA targets for Objective VII. Asessment is based on overall progress.
SDA Targets	B Objective 9.1 To develop and maintain an effective financial accouting and reporting framework for the UK central government sector; so maintaining a world-class position in government financial management. B Objective 9.2 To develop and maintain an effective framework for control of public finances promoting high standards of regularity, propriety, value for money and accountability, and reflecting as appropriate best practice in the private sector. B Objective 9.3 To improve the quality of information available for Government decision making by developing and implementing systems and procedures needed to produce consolidated accounts for central government. A measure of success will be to publish the first consolidated Central Government Accounts for 2003-04.
Performance indicator	N/A
Commentary	**On course** Key achievements include: • *Code of Good Practice on Corporate Governance in Central Government Departments*[9] published July 2005. • Initial department-by-department reviews of financial management effectiveness completed. 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. Shared service administered by DWP for recruitment of trainee accountants; study on the career development of finance skills completed and shared with departments; updated guidance on the role of the Head of the Finance Professionalism produced. • Financial Reporting Manual (FReM) published in April 2005 – brought together accounting guidance for departments, Non-Departmental Public Bodies (NDPBs) and trading funds for whole UK. • COINS – the single data system for collecting financial information from departments for the Treasury and ONS went live on a phased basis between June 2005 and March 2006. • Progress report on WGA published December 2005 including details of progress in systems and processes for central government data and development of dry-run consolidation procedures for local authorities and National Health Service Trust data.
Quality of data systems	N/A

[9] http://www.hm-treasury.gov.uk

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

SR2004 PSA Target (formerly SR2002 Objective X)	There is no PSA target for Objective VIII. Assessment is based on overall progress.
SDA Targets	B Objective 10.1 By working with other departments and with EU partners to appraise the sustainable development implications of policy proposals. B Objective 10.2 By using fiscal instruments to deliver environmental objectives, in accordance with the Statement of Intent on Environmental Taxation, and other instruments where appropriate.
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, vehicle excise duty and company car tax. Pre-Budget Report 2005 announced further support for alternative sources of energy and further measures to improve energy efficiency. This included £10 million for technology demonstrations under DTI's Carbon Abatement Technologies Strategy; and £35 million for the Carbon Trust to support energy-saving in the business and public sectors. In November 2005 the Government also announced the introduction of a Renewable Transport Fuels Obligation requiring 5 per cent of all fuel sold on UK forecourts to come from a renewable source by 2010. The joint Department for the Environment Food and Rural Affairs (DEFRA) / HMT Energy Efficiency Innovation Review was also published at Pre-Budget Report 2005. 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, in July 2005, the Stern Review into the economics of climate change. Budget 2006 provided an update on key developments over the reporting period, announcing measures to encourage energy efficiency across all sectors of the economy – energy, business, households and motorists. In particular, reforms to vehicle excise duty were introduced to further strengthen the incentives to buy cleaner cars and there was a package of measures to promote household energy efficiency including bringing forward an extra 250,000 installations of subsidised insulation in British homes over the next two years. Also published alongside the Budget was a document highlighting the impact of the climate change levy package, which has cut carbon emissions by a total of over 28 million tonnes so far. There has also 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. Domestically, preparations for phase two of the EU ETS have continued, and a consultation on the National Allocation Plan was launched in July. The effectiveness of existing policies also continues to be monitored and evaluated, for example through the work of the climate change programme review.
Quality of data systems	N/A

A2

Performance against outstanding Comprehensive Spending Review 1998 PSA target

CSR 1998 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

CSR 1998 PSA Target

(xiv) Secure an increase in the number of successful high growth business start-ups (joint target with the Department for 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 became high-growth start-ups. Although the provisional 2005 data are lower than the 2004 figure, the proportion of business start-ups which are high growth has increased slightly.

Year in which business registered	Four years after registration	Number of businesses defined as high-growth start-up (VAT registered 4 years previously)
1994	1998	12,300
1995	1999	11,800
1996	2000	11,100
1997	2001	12,200
1998	2002	12,200
1999	2003	12,300
2000	2004	13,400
2001	2005	12,800 (provisional)*

* *The final figure will not be available until Autumn 2006*

Quality of data systems

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

A3 Performance against outstanding 2000 Spending Review Corporate SDA targets

	Procurement
SDA Target	SR2000 SDA target C2.1 The Treasury will reduce transaction costs by 30 per cent by 2004. SR2000 SDA target C2.3 The Treasury will pay all invoices within contractual conditions, or 30 days of receipt of the invoice, or delivery of the goods or service, whichever is the later.
Performance Indicator	C2.1 Percentage reduction in transaction costs.
Commentary	Target C2.1 has been **met** in 2005-06. The Treasury group finance functions are now considering options for transaction processing, including shared services with other departments, with a view to achieving further reductions in transaction costs. Target C2.3 **Slippage**. In 2005-06, 95 per cent of undisputed Treasury and Debt Management Office invoices, and 99 per cent of undisputed Office of Government Commerce invoices have been paid within 30 days or within the agreed contractual terms if otherwise specified. Improving payment performance continues to be a priority.

B

HM Treasury Group public expenditure data, including core tables

Introduction

B1 This annex is a statistical account of the finances and staff numbers of the Treasury group.

B2 The Treasury group includes the core Treasury – the policy department based in 1 Horse Guards Road, London – the Debt Management Office and the Office of Government Commerce.

B3 In line with proposals made by Treasury to Parliament, Table 2a presents the Treasury group's resource budget analysed by objective, linking to the description of progress against those objectives in the main body of the report.

B4 For more information, refer to the Treasury Resource Accounts[1] and Treasury Estimates[2].

B5 The data has been updated to reflect the transfer during 2005-06 of the Government Social Research Unit from Cabinet Office to HM Treasury. The costs of this function for years prior to the transfer are now included in previous years' totals to aid comparison. Due to rounding, some of the totals in the tables may differ from the sum of the line items.

B6 The figures for 2006-07 and 2007-08 reflect the Treasury's SR2004 settlement, which (as adjusted for subsequent machinery of government changes) was £248 million of resource Departmental Expenditure Limit (DEL). Original plans for 2005-06 were the same £248 million of resource DEL allocated in SR2004, plus £8 million for OGC's Efficiency Challenge Fund, in total a resource DEL of £256 million. The total resource budget for 2005-06 including Annually Managed Expenditure (AME) items was £318 million.

B7 The Estimated Outturn for 2005-06 is £234 million of resource DEL and £276 million total resource budget. The main factors in the difference between plan and estimated outturn are:

- reductions in the net cost of investment in the Bank of England and coinage AME (£17 million and £4 million less than plan respectively, affecting total resource budget but not DEL);
- the £5 million exceptional revaluation gain on the 1 Horse Guards Road building; and
- savings at the core Treasury and DMO of £7 million and £5 million respectively, offset by planned extra work on OGC's expanded remit (£2 million).

Table 1: Total public spending for the HM Treasury group

£ million	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Estimated Outturn	2006-07 Plans	2007-08 Plans
Consumption of resources:								
Total resource budget[3]	**217**	**221**	**358**	**293**	**249**	**276**	**309**	**317**
of which								
Resource DEL	180	153	279	212	187	234	248	248
Capital spending:								
Total capital budget	**19**	**-32**	**58**	**4**	**-19**	**-8**	**7**	**7**
of which								
Capital DEL	19	-32	58	4	-19	-8	7	7
Total public spending[4]	**229**	**181**	**336**	**289**	**236**	**262**	**308**	**314**

Explanations of trends are given in notes to subsequent tables.

[1] Resource accounts for the years since 2001-02 are available at http://www.hm-treasury.gov.uk/about/resourceaccounts/resourceaccounts_index.cfm
[2] Available at http://www.hm-treasury.gov.uk/documents/public_spending_and_services/parliamentary_supply_estimates/pss_pse_index.cfm
[3] Total resource budget calculated as the sum of the Departmental Expenditure Limit (DEL), set in biennial Spending Reviews, and Annually Managed Expenditure (AME).
[4] Net of depreciation. This is the standard public expenditure presentation.

Table 2: Resource budget for HM Treasury group, by spending body

£ million	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Estimated Outturn	2006-07 Plans	2007-08 Plans
Core Treasury	**155**	**122**	**218**	**153**	**134**	**152**	**181**	**181**
Of which								
Net administration costs[5]	71	74	103	106	101	102	113	113
Exceptional items[6]			69		-19	-5		
Financial Inclusion Fund						1	1	1
Banking and gilts registration	12	12	11	12	15	12	12	13
Coinage	42	37	34	34	35	33	39	39
Other core Treasury[7]	30	0	1	2	2	9	17	16
Debt Management Office[8]	**5**	**8**	**7**	**8**	**7**	**10**	**15**	**15**
Of which								
Net administration costs	6	8	6	7	6	10	11	11
Office of Government Commerce	**-12**	**0**	**42**	**32**	**31**	**55**	**41**	**41**
Of which								
Net administration costs[9]	18	31	37	32	35	45	43	43
Residual estate[10]	-34	-31	5	0	-5	1	-2	-2
Efficiency Challenge Fund and other[11]	4				1	9		
Net cost of investment in Bank of England[12]	**31**	**63**	**72**	**77**	**57**	**38**	**51**	**59**
Other functions[13]	**37**	**28**	**18**	**22**	**21**	**21**	**21**	**22**
Of which								
Civil List	10	10	10	10	10	10	10	10
Salaries and pensions of MEPs	8	5	6	7	7	7	7	7
Grant in Aid to Statistics Commission	1	1	1	1	2	1	1	1
Royal Household Pension Fund	0	1	2	2	2	1	2	2
Other	18	10	-1	3	1	2	2	2
Total resource budget	**217**	**221**	**358**	**293**	**249**	**276**	**309**	**317**

[5] Core Treasury admin costs increase from 2002-03 onwards mainly due to the PFI Unitary Payment for the 1 Horse Guards Road building which began in that year.
[6] £69 million for 2002-03 representing the difference between the costs of refurbishing 1 Horse Guards Road incurred by the Treasury's private sector partner and the value, independently assessed, of the refurbished building based on rental potential (a full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999). The credits in 2004-05 and 2005-06 arise from revaluation gains on 1 Horse Guards Road of £11m in 2004-05 and £5m (estimated) in 2005-06, and the £8m gain on disposal of 100 Parliament Street to HM Revenue and Customs.
[7] The increase in this line in 2005-06 includes spending on the UK's joint presidencies of the G7 and G8, and budgets for the promotion of retail savings products introduced following the Sandler Review's recommendations. The 2000-01 figure includes £29m cost of capital charges on investments in former nationalised industries, the last significant holdings of which were sold in 2000-01.
[8] The increase in resource budget from 2006-07 represents, among other things, a planned renewal programme of the DMO's strategic systems and the continued development of initiatives that are intended to reduce the agency's operational risk and enhance its operational resilience.
[9] The increase in expenditure between 2004-05 and 2005-06 is due to OGC's work on its expanded remit, particularly on improving efficiency across the public sector.
[10] OGC is responsible for the management and disposal of the residual surplus Civil Estate properties inherited in 1996 by its predecessor, the Property Advisers to the Civil Estate. Between 1996 and 2006, the Estate reduced from 384 to 18 properties, and this had a considerable impact on OGC's resource budget, particularly in the earlier years. The negative outturns occur because the OGC's balance sheet contains provisions for the onerous costs of residual leasehold properties. As the estate is disposed of, surplus provisions are released from the balance sheet, counting as credits to the resource budget. The value of the releases becomes smaller as the rate of disposal of properties reduces.
[11] The £1 million in 2004-05 and £9 million in 2005-06 is the expenditure from the Efficiency Challenge Fund (ECF) managed through OGC as part of the SR2004 settlement.
[12] See table 4, footnote 25 on the balance sheet treatment of the Bank of England.
[13] These are financed by Treasury for historical reasons and include grants to the Inter-Parliamentary Union, the Commonwealth Parliamentary Association, the British American Parliamentary Group and the British-Irish Inter-Parliamentary Body.

B8 In table 2a below, the resource budget is analysed by the Treasury's SR2004 objectives. This analysis corresponds to the description of progress against the objectives in Chapters 2 to 5 inclusive. The 2004-05 outturn has been restated mapping the SR2002 objectives to the SR2004 objectives. Plans for 2007-08 are not yet sufficiently detailed for a meaningful analysis of budget by objective to be provided.

Table 2a: Resource budget for HM Treasury group, by objective

£ million		2004-05 Outturn	2005-06 Estimated Outturn	2006-07 Plans
Objective I:	Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability	122	106	137
Objective II:	Increase the productivity of the economy and expand economic and employment opportunities for all	11	10	12
Objective III:	Promote efficient, stable and fair financial markets, for their users and the economy	34	31	34
Objective IV:	Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest	10	6	7
Objective V:	Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity especially protecting the most vulnerable	14	18	15
Objective VI:	Improve the quality and cost effectiveness of public services	45	76	66
Objective VII:	Achieve world-class standards of financial management in government	8	9	11
Objective VIII:	Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies	2	2	3
Other work not falling under one of the objectives		22	23	24
Exceptional items		-19	-5	
Total resource budget		**249**	**276**	**309**

B9 Objective I includes coinage, including cost of capital charges on the Royal Mint, half of the net cost of investment in the Bank of England, the direct costs of the DMO, and banking and gilts registration services. The variations over the three years shown are a combination of changes in the cost of capital charges on the Mint and the Bank and in the dividend receivable from the Bank, and planned extra spending by the DMO in 2006-07.

B10 Objective III includes the other half of the net cost of investment in the Bank of England.

B11 Objective V increases in 2005-06 because of the Treasury's costs on the UK's joint presidencies of the G7 and G8.

B12 Objective VI includes the direct net costs of the OGC. The factors behind changes in OGC's net costs are set out in footnotes 9, 10 and 11 to Table 2.

B13 The line, "Other work not falling under one of the objectives" includes various costs which are paid by the Treasury for historical reasons, such as the Civil List, MEPs' salaries and grants in aid to the Parliamentary bodies.

Table 3: Capital budget for HM Treasury group

£ million	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Estimated Outturn	2006-07 Plans	2007-08 Plans
Core Treasury[14]	**23**	**7**	**128**	**1**	**-21**	**1**	**3**	**3**
Of which								
Administration	3	7	1	1	-21[15]	1	3	3
Exceptional item			141[16]					
Investments	20[17]		-14[18]					
Debt Management Office	**1**	**2**	**1**	**1**	**1**	**1**	**1**	**1**
Office of Government Commerce	**-5**	**-41**	**-71**	**2**	**0**	**-10**	**2**	**2**
Of which								
Residual estate and Whitehall Systems[19]	-8	-42	-74	0	-3[20]	-14[21]	0	0
Administration	3	1	3	2	3	4	2	2
Total capital budget	**19**	**-32**	**58**	**4**	**-20**	**-8**	**7**	**7**

B14 The Debt Management Office's capital spending contributes to Objective I (Maintaining a stable macroeconomic framework with low inflation and sound public finances in accordance with the Code for Fiscal Stability), and the Office of Government Commerce's capital spend contributes to Objective VI (Improving the quality and cost effectiveness of public services). Core Treasury capital spend contributes to all objectives.

[14]Since 2002-03, when the Treasury occupied its new headquarters building procured under the Private Finance Initiative, its capital expenditure has been mainly on operational IT assets. Prior to that date expenditure included some works to buildings.
[15]Includes a capital receipt from the disposal of the land at 100 Parliament Street for £22 million. Disposal proceeds are surrendered to the Consolidated Fund and not spent within the Treasury group.
[16]In line with standard accounting practice the £141 million capital costs of the 1 Horse Guards Road project, incurred by and paid by the private sector partner, were presented as part of the Treasury's own capital expenditure for 2002-03, although the Treasury made no corresponding cash payment. (A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999).
[17]£20 million net investment in Partnerships UK (PUK). PUK was established on 1 April 2000 to provide a permanent and sustainable centre of expertise to develop the Government's Public Private Partnership programme. 51 per cent of shares are allocated to private investors, 44.6 per cent of shares are retained by the Treasury and 4.4 per cent of shares were allocated to the Scottish Executive.
[18]The credit of £14 million arose from the disposal of residual shares from past privatisations in power companies – Powergen and Innogy.
[19]Capital receipts from the sale of residual freehold properties of £42 million in 2001-02 and £74 million in 2002-03 were mostly accounted for by the sale of, respectively, 2 Marsham Street SW1 and Burtonwood, near Warrington. Disposal proceeds are surrendered to the Consolidated Fund and not spent by the Treasury group.
[20]The amount for 2004-05 is the capital receipt of £11 million for the transfer of the Whitehall Systems to OGCbuying.solutions offset by the issue of the loan for £8 million to OGCbuying.solutions to facilitate the transfer.
[21]The amount for 2005-06 includes £13 million for the disposal of the residual estate freehold property at Honeypot Lane, Stanmore and £1 million for part repayment of the loan to OGCbuying.solutions. The residual estate disposal proceeds were surrendered to the Consolidated Fund and not spent by the Treasury group.

Table 4: Capital employed by HM Treasury group

£ million	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Estimated Outturn	2006-07 Plans	2007-08 Plans
Fixed assets	**1569.8**	**1610.7**	**1662.6**	**1710.3**	**1743.4**	**1791.6**	**1840.9**	**1885.6**
Of which								
Intangible assets[22]	1.2	1.5	1.5	1.9	3.2	3.9	5.2	5.9
Tangible assets[23]	56.3	57.2	129.6	123.0	108.0	112.6	115.6	114.5
Of which								
Land & Buildings[24]	31.1	32.1	109.3	105.3	94.8	98.2	101.6	101.7
Leasehold Improvements	-	0.9	0.6	0.6	5.6	6.4	6.0	5.0
Plant & Machinery	0.2	0.1	0.1	0.1	0.6	0.6	0.7	0.6
Furniture & Equipment	8.0	2.1	1.1	0.5	0.9	1.1	1.0	0.9
IT Equipment	-	6.2	4.1	2.4	4.4	4.6	4.7	4.7
Library & antiques	1.9	1.8	1.6	1.5	1.6	1.6	1.6	1.6
Whitehall systems	15.1	14.0	12.8	12.6				
Investments[25]	1512.3	1552.0	1531.5	1585.4	1632.2	1675.1	1720.1	1765.2
Current Assets[26]	440.7	260.4	187.0	78.0	103.7	68.6	68.6	68.6
Creditors (<1 year)[27]	-336.5	-168.5	-203.7	-82.6	-106.0	-79.1	-78.8	-78.8
Creditors (>1 year)[28]	0	0	-141.8	-144.9	-147.4	-150.5	-153.1	-155.9
Provisions[29]	-99.3	-48.4	-30.6	-28.2	-16.1	-15.5	-11.1	-10.4
Capital employed	**1574.7**	**1654.2**	**1473.5**	**1532.6**	**1577.5**	**1615.1**	**1666.6**	**1709.2**

Further details of the Treasury's balance sheet are given in its 2004-05 Resource Accounts, HC 93.

[22] Principally computer software.
[23] Tangible assets mainly represent land and buildings, IT equipment and, up to and including 2003-04, the Whitehall heating and standby power systems operated by OGC. The latter were transferred in 2004-05 to OGCbuying. solutions.
[24] Land and Buildings values are driven by adjustments for depreciation and revaluations which are forecast for 2005-06 onwards. The increase in value in 2002-03 arises from the addition of 1 Horse Guards Road to the balance sheet. (A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999)
[25] In line with the Financial Reporting Manual's rules on investments, the net cost of the Government's shareholding in the Bank of England is treated as an investment in the Treasury's accounts, and valued in line with the Bank's net assets of some £1.6 billion. With effect from 1 March 2005, the Bank is proposing to prepare its accounts under IFRS; the forecasts have not been adjusted to reflect the impact of this change. A gross cost of capital charge is made resulting in a capital charge of around £100 million. The Bank pays the Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. This is credited as income to the central Treasury budget but is then surrendered to the Consolidated Fund.
[26] Current assets include debtors, cash and (especially in earlier years) the vacant civil estate managed by the OGC.
[27] The principal short-term creditor is the Consolidated Fund.
[28] Since 2002 Exchequer Partnership has been a long-term creditor in respect of payments due to it in the remaining years of the PFI arrangement for 1 Horse Guards Road.
[29] Provisions mainly relate to the OGC's vacant civil estate, and also include a balance for early retirements.

Table 5: Administration costs for HM Treasury group

£ million	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Outturn	2005-06 Estimated Outturn	2006-07 Plans	2007-08 Plans
Gross administration costs								
Paybill	64	70	75	79	82	89		
Other	54	61	89	80	56	84		
Total gross administration costs	**118**	**130**	**164**	**159**	**138**	**173**	**178**	**178**
Related administration cost receipts	-23	-18	-18	-14	-15	-21	-10	-10
Total net administration costs	**96**	**113**	**146**	**145**	**123**	**152**	**168**	**168**
Analysis by activity								
Core Treasury	71	74	103	106	82	97	113	113
Financial Inclusion Fund						1	1	1
Debt Management Office	6	8	6	7	6	9	11	11
Office of Government Commerce	18	31	37	32	35	45	43	43
Total net administration costs	**96**	**113**	**146**	**145**	**123**	**152**	**168**	**168**

For the causes of variances from year to year, see the footnotes to Table 2.

Table 6: HM Treasury Group Staff Numbers[30]

Full-time equivalents (FTEs)	1st April 2001	1st April 2002	1st April 2003	1st April 2004	1st April 2005	1st April 2006 Estimated Outturn	1st April 2007 Plans	1st April 2008 Plans
Core Treasury								
CS Permanent	980	1140	1160	1140	1044	1047[31]	1012	999
CS Casual	40	70	60	64	62	55[31]	55	55
Current additional liabilities[32]	*	*	*	40	28	23	28	28
Machinery of Govt changes								
GSRU March06	15	15	15	15	15	15	15	15
HMRC April 06	6	6	6	6	6	6	6	6
Total Gross Control	**1041**	**1231**	**1241**	**1265**	**1155**	**1146**	**1116**	**1103**
DMO								
CS Permanent	66	76	79	84	76	71	85	85
CS Casual	1	1	2	2	1	1	0	0
Total Gross Control	**67**	**77**	**81**	**86**	**77**	**72**	**85**	**85**
OGC								
CS Permanent	450	410	380	370	380	360	355	360
CS Casual	10	10	10	20	70	70	105	30
Total Gross Control	**460**	**420**	**390**	**390**	**450**	**430**	**460**	**390**
Treasury Group								
CS Permanent	1517	1647	1640	1655	1549	1522	1501	1493
CS Casual	51	81	72	86	133	126	160	85
Total Gross Control	**1568**	**1728**	**1712**	**1741**	**1682**	**1648**	**1661**	**1578**

* = Data not available

HM Treasury

- Since 1st April 2004, the Treasury has reduced its staff by 119 FTEs (based on estimated outturn for 1st April 2006). This reduction includes 102 FTEs currently in post and 17 current additional liabilities.

- The Treasury's baseline was adjusted in March 2006 to accommodate machinery of government changes: the transfer of 15 FTE posts from the Cabinet Office in the Government Social Research Unit (March 2006) and 6 FTE posts from Her Majesty's Revenue and Customs (HMRC) to form a single Correspondence Unit for HMRC and HM Treasury (April 2006).

Debt Management Office (DMO)

- DMO's efficiency programme does not include any headcount reductions. The estimated outturn for 1st April 2006 is 72 FTEs, which is lower than planned.

Office of Government Commerce (OGC)

- The OGC took on an enhanced remit during 2004-05 with responsibility for assisting with the implementation of the efficiency review across government and the wider public sector. Once this task is completed by the end of the 2004 Spending Review period, the OGC will revert to its 2003-04 staff complement.

- Final headcount outturn for 2005-06 is less than originally forecast, but OGC is currently seeking to recruit to a number of key roles to support its remit.

[30] All reported staff numbers for April 2006 are estimates based on staff data as at 1st February 2006.
[31] The April 2006 Plan for CS Casual and CS Permanent reported in the 2005 Departmental Report showed 1080FTE. The table above shows an estimated outturn of 1102 FTEs. This is in part due to temporary review teams, which are expected to complete before 2008.
[32] Current additional liabilities represent the number of staff employed by the Treasury who are not available for work but for whom the Department is paying (this covers staff on paid secondments, maternity, long term sick and study leave). Staff in this category are already included in DMO and OGC figures.

Table 6a: Treasury Group Trading Fund Staff Numbers

Full-time equivalents (FTEs)	1st April 2001	1st April 2002	1st April 2003	1st April 2004	1st April 2005	1st April 2006 Estimated Outturn	1st April 2007 Plans	1st April 2008 Plans
OGCbuying.solutions								
CS Permanent	165	190	230	243	260	261	285	290
CS Casual	0	10	10	0	0	0	0	0
Total Gross Control	**165**	**200**	**240**	**243**	**260**[33]	**261**	**285**	**290**

[33]In the 2005 HM Treasury Departmental Report, OGCbuying.solutions reported a total of 275 FTE staff as at 1st April 2005. This included unfilled vacancies. The actual number of FTE staff (1st April 2005) in post was 260.

C

HM Treasury Group Efficiency Plans and Progress

INTRODUCTION

C1 As part of Spending Review 2004, the Treasury Group[1] agreed a target to achieve annual efficiency savings of £17.7 million by 2007-08. This target level has subsequently been raised to £18.7 million following OGCbuying.solutions increasing their contribution from £0.8 million to £1.8 million by 2007-08. The Treasury Group published a revised Efficiency Technical Note in December 2005.

C2 The Efficiency Technical Note[2] sets out in detail the workstreams making up the Treasury Group's efficiency plans, and describes the measures being taken to ensure quality of service delivery is maintained, and the data systems from which reported efficiency gains are derived.

The table below sets out progress against targets to date.

Table 1: Treasury Group - Efficiency plans: summary progress to date[3]

£ million	Target 2007-08	Progress (January 2006)	Of which cashable[4]	Progress (April 2006) Estimate
Core Treasury	11.9	4.6	4.6	6.2
OGC	4.0	1.9	1.6	3.5
OGCbuying.solutions	1.8	0.8	0.4	1.1
DMO	1.0	0.7	0.7	0.9
Total	**18.7**	**8.0**	**7.3**	**11.7**

CORE TREASURY

Efficiency Plans

C3 The core Treasury's efficiency plans focus on three workstreams against which performance is measured, as detailed below. The core Treasury is on track to deliver its planned contribution of £11.9 million of efficiencies to the overall target by 2007-08 and had achieved £4.6 million of efficiencies by January 2006.

Workstream: Policy, Funding and Regulation (PFR) - Directorate Budgets and Corporate Services

Plans: £5 million efficiencies by 2007-08

Progress to January: £1.5 million

C4 This workstream focuses on how core Treasury can deliver its policy objectives and corporate services more effectively, and includes reducing both staff and non-staff costs. The Treasury has also put in place a programme of reforms to its procurement strategy, with the overall objective of providing better value for money though improved efficiency in procurement delivery (covering procurement services, purchases, processes and systems). These reforms, due to reach fruition during 2006-07, will improve procurement performance and delivery to the department, resulting in a more efficient procurement service, which will both improve quality of the services and deliver improved value for money. The areas covered by the programme include:

- improving compliance in procurement delivery;
- establishing proactive communication and improving information systems; and
- extending the use of e-procurement solutions.

[1]Including the Office of Government Commerce (OGC) and Debt Management Office (DMO)
[2]Available on the Treasury website at http://www.hm-treasury.gov.uk/media/F59/FE/pbr05_efficiency_261.pdf
[3]This table uses January 2006 figures for consistency with the Budget report. Figures given in the text are for January 2006 unless noted otherwise. For clarity, the table also shows latest overall figures at April 2006. In most cases, these are estimates and still need to be verified.
[4]Cashable savings are those which reduce the costs associated with a defined activity or output, thereby releasing money to be recycled to other priorities within the department

C5 Please see also paragrahs 6.27 - 6.34 of Chapter 6 for more details about our progress in transforming corporate services.

Workstream: Policy, Funding and Regulation (PFR) - Strategic Reserve

Plans: £4 million efficiencies by 2007-08

Progress to January: £3 million

C6 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 primarily for new policy priorities as they emerge during the 2005-08 period. New outputs funded from the Strategic Reserve in 2005-06 include:

- planning and hosting the Ministerial meetings associated with chairing the G7/8, EU and EU Budget presidencies; promoting the joint Presidency agenda;
- financial management reviews of all central government departments, including selective use of private sector financial management expertise, and improved control of the public sector finances by Treasury; and
- work on financial sector Corporation Tax (CT) receipts which developed a better understanding of the sectoral breakdown of CT receipts and of the economic drivers and behaviours of the financial sector. The work has fed into improved forecasting methodology for CT and formed the basis for similar work on other sectors of the economy.

Workstream: Programme

Plans: £2.9 million efficiencies by 2007-08

Progress to January: £0.1 million

C7 The main element within the Treasury's programme workstream is the purchase of UK coinage from the Royal Mint. Costs of coinage have risen during 2005-06 due to exceptionally high metal prices. The Treasury is working with the Royal Mint to agree new arrangements to provide incentives to manage costs, production and distribution of coinage more effectively.

OFFICE OF GOVERNMENT COMMERCE

Efficiency plans

C8 Work continues on the initiatives identified to deliver OGC's contribution of £4 million to the overall efficiency target by 2007-08. These will help all OGC service areas. Initiatives are managed within a formal programme structure and each one has an owner at senior management level[5].

C9 Restructuring **Corporate Services** will save £1.5 million by 2007-08. The initiatives 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, working with the other parts of the Treasury group.

C10 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).

C11 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

C12 OGC is on track to meet the £4 million savings contribution by 2007-08. Total verified savings to January are £1.9 million, which are higher than anticipated and likely to increase with further verification.

OGCBUYING.SOLUTIONS

Efficiency plans

C13 OGCbuying.solutions has now committed itself to delivering a revised contribution of £1.8 million towards the overall efficiency target 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

[5] Initiative managers are responsible for monitoring savings, which are verified by the Finance team, in consultation with the Programme Manager and Senior Responsible Officer (SRO).

- relocation - with plans to secure £0.4 million through the relocation of its existing operation out of London.

Progress to date

C14 As of January 2006, 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; and
- £0.35 million of procurement savings through the reduction in the cost of delivery of some of its support services.

UK DEBT MANAGEMENT OFFICE

Efficiency plans

C15 The DMO will contribute £1 million to the overall target by 2007-08. The efficiencies will be achieved as follows:

C16 **Corporate Services:** 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.

C17 **Procurement:** 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.

C18 **Transaction processing:** 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

C19 The DMO is on track to secure its efficiency savings by 2007-08 and had achieved £0.7 million of efficiencies by January 2006. Savings initiatives successfully completed to date include:

- £0.4 million saved on corporate services; and
- £0.3 million saved on procurement.

HEADCOUNT AND RELOCATION TARGETS

C20 In addition, to support the delivery of its efficiency plans, the Treasury Group has a target to reduce its headcount by 150 full time equivalent staff over the SR2004 period. This reduction will be met by core Treasury. As at January 2006, the Treasury is on track to meet this plan, as set out in the table below.

Table 2: Treasury Group - Headcount Reductions

Full time Equivalent (FTE)	Target headcount reduction 2007-08	Estimated outturn reduction 2007-08[6]	Progress or changes to date (January 2006)
Core Treasury	150	162	119[7]
OGC	0	0	-40[8]
DMO	0	1	14
Total	**150**	**163**	**93**

C21 OGCbuying.solutions is a trading fund, which is contributing to the Government's overall efficiency programme, so its staff numbers are not limited in the way numbers in the rest of Treasury Group are. Its headcount is estimated to increase by 47 FTEs by 2007-08. As at January 2006 it had increased by 18 FTEs.

C22 In response to the Lyons Review, the Treasury Group committed to relocating 26.5 posts out of London by 2007-08. We are on track to meet this commitment: as at January 2006, OGC had relocated nine posts from London to Norwich and plans to transfer up to 35 posts from central London by 2010 as natural recruitment opportunities occur; and OGCbuying.solutions will relocate 22 posts from London to Norwich and Liverpool by October 2006.

[6] For consistency with Headcount table 6 in Annex B.
[7] For Budget 2006, the Treasury submitted a headcount reduction figure of 111 for January 2006. This has now been restated as 119 due sharing of headcounts for a temporary review team with another government department.
[8] The OGC took on an enhanced remit during 2004-05 with particular responsibility for leading on the implementation of the efficiency review across Government and the wider public sector. Once this task is completed by the end of the 2004 Spending Review period the OGC will broadly revert to its 2003-04 staff complement.

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