Presented pursuant to the GRA Act 2000, c.20. s.6

HM Treasury

Resource Accounts 2004 – 05

LONDON: The Stationery Office
HC 93

30 June 2005
£10.50

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CONTENTS

OPERATING AND FINANCIAL REVIEW

Scope of these accounts

1. The aim and objectives of the Treasury, set in the 2002 Spending Review, are set out in Box 1.

Box 1: HM Treasury's aim and objectives

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

Objectives:

- maintaining a stable macroeconomic framework with low inflation (Objective I);
- maintaining sound public finances in accordance with the Code for Fiscal Stability (Objective II);
- promoting 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 III);
- increasing the productivity of the economy (Objective IV);
- securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest (Objective V);
- expanding economic and employment opportunities for all (Objective VI);
- promoting a fair and efficient tax and benefit system with incentives to work, save and invest (Objective VII);
- improving the quality and the cost effectiveness of public services (Objective VIII);
- achieving a high standard of regularity, propriety and accountability in public finance (Objective IX); and
- protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies (Objective X).

2. Objectives cover the full range of departmental activity over the medium term. Public Service Agreement (PSA) targets identify the specific priorities that we aim to achieve in order to measure progress towards the objectives in the three year timeframe covered by the spending plans. In the period covered by the Spending Review in 2002 (SR2002), seven of the Treasury's objectives had related PSA targets – performance against them is reported in the Departmental Report and the Autumn Performance Report.

3. The 2004 Spending Review (SR2004) set new targets for the Treasury for the period 2005-08. It also refined the Treasury's objectives. The new set of objectives and targets can be found in the 2005 Departmental Report on the Treasury website http://www.hm-treasury.gov.uk. The first report of performance against these targets will be in the 2005 Autumn Performance Report.

4. As the UK's finance and economics ministry, HM Treasury is responsible for the finance function of Government as a whole, as well as for its own business as a Department. These accounts relate only to Treasury's own business. They include the resources engaged in managing the Government's overall finances, but not the substantive transactions managed. These are accounted for separately – see note 1.2 to these accounts.

5. These accounts have been prepared under a direction issued by the Treasury Officer of Accounts in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This Review draws on the Accounting Standards Board's January 2003 Statement on Operating and Financial Reviews to the extent that it is meaningful and appropriate to the public sector context.

Organisational structure

6. The Treasury has three distinct operating units:

- **Core Treasury:** The core Treasury is made up of six Directorates: Budget and Public Finances (BPF); Finance, Regulation and Industry (FRI); Government Financial Management (GFM); Macroeconomic Policy and International Finance (MPIF); Ministerial and Corporate Services (MCS); and Public Services (PSD). In the summer of 2004, the Treasury reviewed its corporate management structure – strategic management and direction is now provided by the Treasury Board, which meets formally six times a year. In addition to the Audit Committee the Treasury Board has two sub-committees, which meet monthly – the Finance Committee and the Operations Committee. These committees are accountable to the Board for financial and operational issues and decisions, and assess financial and operational management information monthly.

- **The United Kingdom Debt Management Office (DMO):** which is the core Treasury's only Executive Agency. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who is supported by the Financial Secretary. The DMO's Chief Executive is an additional Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with its Framework Document.

- **The Office of Government Commerce (OGC):** OGC is an independent office of the Treasury with its own Chief Executive (at Permanent Secretary level) and Executive Board. The Financial Secretary is the responsible Minister. These accounts include the Public Dividend Capital and dividend payment of OGC's Executive Agency, OGCbuying.solutions. The Agency is a Trading Fund financed from income from its customers. As such it publishes its own accounts and is not consolidated into these accounts.

7. Each of these business units has its own Audit Committee. Their non-executive members were Christopher Swinson (Chair) and Margaret Exley (core Treasury); Colin Price (Chair), James Barclay and from 1 January 2005 Brian Larkman (DMO); and Colin Thwaite (Chair), Brian Glicksman and David Fisher (OGC). Margaret Exley stood down from the core Treasury Audit Committee in April 2005 and has been replaced by Stella Manzie.

8. The notes to the Accounts provide analysis of Treasury's expenditure and information in respect of management, staffing, remuneration and pensions. Several of the analyses in the accounts include separate figures for the OGC and HMT (i.e. the core Treasury and the DMO together). Figures for the DMO alone are reported in its separately published accounts, which can be viewed, on the following website: http://www.dmo.gov.uk.

The core Treasury

Activities

9. The core Treasury's main activities are:

a. the provision of advice to Ministers on economic and financial policy, and the acquisition of the information, knowledge and expertise needed to do so effectively; and

b. the communication and implementation of that policy – for instance by managing the central finances of Government, preparing legislation, exercising its powers of financial control within Government, procuring the supply of coinage and influencing economic agents.

10. Much of this work is undertaken in partnership with other bodies. During 2004-05 the Treasury had lead policy responsibility for the Statistics Commission (an advisory non-departmental public body (NDPB) funded by grant from the Treasury) and the Public Services Productivity Panel (an advisory NDPB). The Treasury also:

- has statutory responsibility for the legislative framework governing the Financial Services Authority's regulation of the financial sector;

- under the Bank of England Act 1946 is the sole shareholder in the Bank;

- is the sole holder of public dividend capital in the Royal Mint, a Government Department with Trading Fund status;

- holds 44.5% of the share capital of Partnerships UK plc, a public private partnership (PPP) classified to the private sector whose mission is to promote PPPs. Private sector organisations hold 51% of the share capital of Partnerships UK plc. Scottish Ministers hold the remaining 4.5%; and

- is responsible for the Pool Re arrangements for the reinsurance of commercial property damage, and consequent business interruption, arising from terrorist attacks.

For historical reasons the Treasury has some additional functions not related to the business of a finance and economics ministry, including:

- the payment of pensions to former Members of the European Parliament, and salaries of current MEPs, payments under the Civil List Act and Royal Household Pension Scheme. These are Standing Services of the Consolidated Fund which are included in the Treasury's Resource Budget, but outside the boundary of these resource accounts; and

- grant support to certain Parliamentary bodies: the Inter-Parliamentary Union; the Commonwealth Parliamentary Association; the British American Parliamentary Group and the British-Irish Inter-Parliamentary Body.

Results in 2004-05

11. The core Treasury's key policy outputs, and the outcomes which those policies are delivering, are described:

- in the Departmental Report and the Autumn Performance Report;

- in the Economic and Fiscal Strategy Report and Financial Statement and Budget Report, (March 2005); and

- on the Treasury website (www.hm-treasury.gov.uk).

12. 2004-05 has been another successful year for the core Treasury – it is on course to meet all but one of its ten SR2002 PSA targets: the Lisbon Goals and Millennium Development Goals aspects of international PSA target 4. The main achievements in the delivery of the Treasury's objectives in 2004-05 have been as follows:

- inflation, as measured by the Consumer Prices Index, has remained close to the target of 2%, and is expected to remain so with market expectations of inflation 10 years ahead remaining close to target;

- UK productivity continues to improve – the gap is narrowing with France, has closed with Germany, and the UK is now leading Japan by around 8-10 percentage points. The new set of indicators on the drivers of productivity, published in October 2004, will further help to monitor progress;

- the Treasury has continued to make progress on its international goals for the G7 and EU presidencies in 2005, and in Europe has made progress on structural reform and the Lisbon Goals. For the most recent picture of developments in these areas see the HM Treasury 2005 Departmental Report (Cm6540), published on 20 June 2005; and

- delivery of the 2004 Spending Review in July 2004, which set spending plans to 2007-08 that locked in the increased resources delivered in previous Spending Reviews. It agreed efficiency targets for all departments, delivering over £20 billion of efficiency gains a year to be recycled in to front-line services. In October 2004, all Departments published their Efficiency Technical Notes which explain how efficiency gains will be achieved and measured.

Events since 31 March 2005

13. Margaret Exley stood down as a Non Executive Director (NED) of the Treasury Board in April 2005. William Sargent and Stella Manzie were appointed as NEDs with effect from 1 June 2005. Gus O'Donnell (HMT Permanent Secretary) has been appointed as the Head of the Home Civil Service and Cabinet Secretary and therefore a new Permanent Secretary will be appointed in due course.

The future

14. At the beginning of 2004 the core Treasury was fully staffed having carried a high level of vacancies in the 1990s. There have been two key events during 2004-05 which affect the Treasury's staff numbers. Firstly, the implementation of the O'Donnell review has meant that responsibility for tax policy has transferred to the Treasury – this transfer of function has resulted in 150 full-time equivalent posts being transferred to the department from the Inland Revenue and HM Customs & Excise during 2004-05. Secondly, following the 2004 Spending Review, the Treasury has set out its plans to secure £11.9 million of efficiencies within the core Treasury by 2008 (available at http://www.hm-treasury.gov.uk/media/F8E/39/F8E390F4-BCDC-D4B3-1C4802BDA23FF16F.pdf). To support these plans, the core Treasury has committed to reducing the number of full-time equivalent staff it employs in the department by 150 between April 2004 and April 2008. The result is that by April 2008 staff numbers will broadly return to their April 2004 level.

15. No significant investment in fixed assets is planned.

16. The Treasury's approach to managing risk is described in the Statement on Internal Control below. Risks to the Department's objectives include some relating to the resources employed to deliver them and others relating to external circumstances in the economy and public finances.

17. Following a Review, the Chancellor announced in the 2004 Pre Budget Report that the Royal Mint would change status from a Trading Fund to a Government Owned Company. This change will provide a more appropriate corporate governance structure and the opportunity for the Mint to improve its performance.

Debt Management Office

Activities

18. The DMO was established on 1 April 1998 to carry out the Government's debt management policy of minimising financial costs over the long term, taking account of risk and managing the aggregate cash needs of the Exchequer in the most cost effective way. This contributes to Treasury objective II (see box 1 above).

19. On 1 July 2002, the operations of the Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) were integrated with the DMO. The principal activity of the PWLB is to lend to local authorities for capital purposes and collect repayments, while the CRND's principal function is to manage the investment portfolios of certain public funds.

Results in 2004-05

20. The DMO successfully met both its centrally directed remits for debt and cash management, as well as most of its strategic objectives and published targets in full.

21. The DMO's net operating costs were within the planned budget for 2004-05 at £6.9 million. This represents a decrease of £1.2 million from the previous year. During the reporting period, the DMO's gross administrative expenditure remained at the same level as in the previous year, however, an increased level of operating income was received and directly accounts for the reduction in the net position. The main income stream responsible for this increased income was the lending operation by the PWLB to local authorities, which produced the highest level of fee income in the last five years.

Events since 31 March 2005

22. There have been no significant or unexpected events since 31 March 2005.

The future

23. The key planning themes for the 2005-08 period recognise the need for the DMO to continue to deliver its core operational-type objectives to the highest standard, to develop further initiatives that advance the effectiveness of the Government's financial management and to continue to be efficient in the stewardship of the agency. They also explicitly recognise the key contribution the DMO makes in the support of HM Treasury's objectives and the value that has and can continue to be added in this respect.

24. For the period 2005-06 to 2007-08 the DMO's key business planning themes are as set out below.

- To continue to deliver its core operations and activities to the excellent standard required.
- 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 the Government.
- To improve efficiency in line with the Treasury group's own technical note and to reduce operational risk where possible.
- To ensure the core values of the DMO continue to make it an excellent place to work.

Office of Government Commerce

Activities

25. 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 Government's 2004 Spending Review, OGC's remit has been extended to the whole of the public sector.

26. 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. It has an executive agency, OGCbuying.solutions, which provides direct procurement services to the public sector and has Trading Fund status.

Results in 2004-05

27. Working with departments and using seven Key Priorities agreed with departments, OGC delivered value for money gains in central civil government of £1.6 billion in its first three years, against a Public Service Agreement target of £1 billion. Following this success, the Government set a target of £3 billion gains for the period 2003-04 to 2005-06. OGC has already reported £2 billion gains in the first year, and expects that departmental returns for 2004-05 – which will be reported in the autumn of 2005 – will maintain progress towards achieving or exceeding the target.

Further information can be found in:

- The HMT Departmental Report;
- The OGC website (http://www.ogc.gov.uk/).

The future

28. OGC has identified three key areas of work covering the period 2005-08:

- to improve public services by working with departments to help them meet their efficiency targets amounting to £21.5 billion a year by 2007-08;
- to 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 of programmes and projects and through other commercial initiatives; and
- to improve the success rate of mission critical projects.

29. In the longer term, OGC's aim is to develop and embed an improvement culture, which will lead to further efficiencies and savings beyond 2008, and to develop the commercial capability of the public sector.

Financial position and results in outline

Financial position (Schedule 3)

30. The Treasury's activities are predominantly financed by Supply voted by Parliament. The Treasury's balance sheet is dominated by its shareholding in the Bank of England (note 15.1), which is valued in line with the Bank's net assets at £1.6 billion. Other significant assets and liabilities include:

- the operational offices and office equipment used by the three business units (note 13);
- investments in Partnerships UK and the Royal Mint (note 15);
- the surplus property portfolio (note 17);
- provisions relating to surplus property portfolio and early retirement costs (note 22);
- the long term creditor for the 1 Horse Guards Road PFI contract (note 13.2 and note 21).

31. During the year, the land and buildings at 1 Horse Guards Road were revalued upwards by £10.9m, and the land at 100 Parliament Street, with a previous book value of £14.2m, was sold to HM Revenue and Customs. The Whitehall Systems, with a previous book value of £12.1m, were transferred to OGCbuying.solutions. Settlement of the transfer was by way of a payment of £3m on transfer with the balance being treated as a deemed loan repayable over six years with interest at 6.5%. Provisions relating to the surplus property portfolio managed by OGC fell by £11.5m due to the disposal of eight leasehold properties. The valuation of surplus freehold property increased by £8.5m based on open market value. Current investments (note 15.2) with a book value of £1.6 million in privatised companies, which had ceased to have a policy purpose for HMT, were disposed of during the year.

Financial results (Schedules 1 and 2)

32. Net operating costs for the group fell by £52.5m to £213.9m. The total of £213.9m is made up of:

	2004-05	2003-04 (restated)
	£m	£m
Net Administration costs for Request for Resources (RfR) 1, the core Treasury plus DMO	87.7	112.9
Net Administration costs for RfR 3, the OGC	34.9	32.0
Net Programme costs on RfR 1	45.6	76.4
Net Programme costs on coinage, RfR 2	34.3	33.0
Net programme income on RfR 3	(3.8)	0.4
Non supply – Banking and gilts registration services	15.2	11.7
Total	213.9	266.4

33. The main causes of the fall in Treasury Administration costs were the upwards revaluation of 1 Horse Guards Road and the gain on the sale of the 100 Parliament Street land (both exceptional items).

34. The professional revaluation of 1 Horse Guards Road by the Valuation Office Agency, detailed in note 13.2, led to a £10.9m credit to RfR 1 Administration costs. The land at 100 Parliament Street (the east end of the site formerly known as Government Offices Great George Street), had been on the Treasury's balance sheet pending completion of the Private Finance Initiative refurbishment of the 100 Parliament Street building for HM Revenue and Customs (HMRC). In November 2004, the refurbishment was completed and HMRC moved in. The Treasury sold the land to HMRC at an agreed price of £22.3m. Compared to the previous book value of £14.1m, this gave rise to a gain on disposal of £8.2m. Combined, these two exceptional items represent £19.1m of the £25.1m year on year fall in RfR 1 Administration costs from £112.8m to £87.7m. The balance comprises a £4.9m reduction in non-pay costs (including, for example, savings on consultancy costs, utilities and stationery), a £0.9m increase in staff costs (after restating 2003-04 staff costs for the tax policy posts referred to at paragraph 14 above) and a £2.0m increase in administration income.

35. OGC's administration costs have increased by £4.0m, including £3.1m extra staff costs, as a result of increased demand for consultancy services. This was in part offset by an increase in income of £1.1m. Preparation for OGC's role in the Efficiency Review also contributed to this increase.

36. RfR 1 Programme Costs fell by £14.0m, of which £11.9m was due to a 1% reduction in the rate at which cost of capital is charged on the investment in the Bank of England. RfR 1 programme income increased by £16.8m. £9.0m of this increase was extra income from Pool Re and there was an £8.3m increase in the dividend receivable from the Bank of England. The combined effect on RfR 1 net Programme costs was a £30.9m year on year reduction.

37. OGC's net Programme costs (RfR 3) have fallen by £4.2m, due to release of vacant estate provisions, and a non-recurring charge of £3.4m in 2003-04 as a result of a change in the discount rate applied to provisions.

38. During the year, some of the banking and gilts registration services (non-supply) previously provided by the Bank of England were contracted out to a private sector provider. The increase in expenditure (£3.5m) compared to the previous year is largely caused by start up costs of the new provider.

39. Schedule 1 shows the Net Resource Outturn and the Net Cash Requirement, being the results against the annual resource and cash spending limits voted by Parliament. Some of the transactions included in the Operating Cost Statement are excluded from Schedule 1 (typically, where the income is not retained to finance the Department's activities but is surrendered to the Consolidated Fund). Explanations of the significant variances between the outturn and the Parliamentary spending limits (the Estimate) for 2004-05 are given at the foot of Schedule 1, and include some of the same factors as set out in the preceding paragraphs.

Cash flows (Schedule 4)

40. The cash flow statement shows a net cash outflow from operating activities of £123.7m, compared to a cash outflow in 2003-04 of £129.5 million. The relatively small change reflects the fact that most of the major changes in operating costs are non-cash items. The year on year change in operating cash flows includes the £16.9m increase in RfR 1 programme income, offset by a £2.1m outflow on working capital movement (in 2003-04, there was a £6.8m working capital inflow).

41. The £20.3m net cash inflow on capital items (2003-04: £3.8m net outflow) includes, in the HMT column, the £22.3m proceeds of the sale of 100 Parliament Street to HMRC and £1.7m proceeds of the residual shareholdings in past privatisations. £11.3m of OGC's proceeds of asset disposals and its £8.3m investment addition both arise from the transfer of the Whitehall Systems to OGCbuying.solutions. The net effect of the two lines is the £3m of the transfer value which OGC received in cash, the loan being repayable over 6 years.

42. Payments to the Consolidated Fund fell from £144.2m in 2003-04 to £71.4m in 2004-05, mainly because the 2003-04 total included the payment over of £74m of proceeds from vacant estate freehold property disposals.

43. The financing cash inflow, primarily the grant drawn from the Consolidated Fund, has fallen by £7.9m from £193.2m to £185.3m, but this includes grant balances unspent or undrawn at the year end. The Net Cash Requirement, which is the measure of cash used on Supply financed activities, has increased by £3.5m (1.9%) from £187.5m to £191.0m.

Management

Ministers and senior managers

44. Note 3.3 identifies the Treasury's Ministers and senior managers, being the members of the Treasury Board and Chief Executives of DMO and OGC, during 2004-05.

Appointment of Permanent Secretary and the Senior Managers

45. The Permanent Secretary and Chief Executive of the OGC are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. These are permanent appointments under Senior Civil Service contracts. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

46. Other senior managers including the Chief Executive of the DMO are appointed by the Permanent Secretary. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

Remuneration of Ministers and Senior Managers

47. Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 and the Ministerial and Other Pensions and Salaries Act 1991.

48. The remuneration of the Permanent Secretary, Second Permanent Secretary and Chief Executive of the OGC is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, Col 245-247).

49. For the remaining members of the Treasury Board and the Chief Executive of DMO remuneration is determined by H M Treasury's Pay Committee in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

50. Further details on remuneration are set out in note 3 to these accounts.

Register of interests

51. Senior managers within the Treasury are required to complete a declaration of any interests. No interests have been declared apart from James Sassoon who is a director of Partnerships UK plc. He receives no remuneration in respect of this directorship.

Diversity and Equality

52. The Treasury seeks actively to promote 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 seeks to foster a culture of trust and openness in which people support and develop each other, and feel valued for the contribution they make.

53. Many Treasury staff take advantage of alternative working patterns and home working which have been embedded into the Treasury's working arrangements for a number of years. In 2004 the Treasury developed support for staff with dependant care responsibilities through adding a family help line and childcare vouchers to existing arrangements that included a holiday play scheme. The additional benefits have been welcomed at all levels in the department and take up, from both men and women, has been good.

54. The Treasury has appointed a Champion at Board level to ensure the department's aims on diversity are understood at every level and are acted on and delivered by all.

55. The OGC and DMO are also equal opportunities employers.

Payment of Suppliers

56. The Treasury's target is to make all payments not in dispute within 30 days or less of acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2004-05 core Treasury achieved a performance of 90.23% (2003-04: 81%) against this target. This remains slightly below the target, due to the residual effects of a major internal systems change in 2003-04, and actions have been implemented to achieve improvements for the future.

57. Over the same period, the OGC achieved a performance of 99.86% (2003-04: 99.97%).

Communication with staff

58. Each of the Treasury's business units has a policy of actively communicating with staff, and consulting wherever appropriate. A wide variety of media are employed, including intranets, team briefings, newsletters and discussion with trade union representatives.

Auditors

59. The Comptroller and Auditor General examines HM Treasury's resource accounts under the Government Resources and Accounts Act 2000 and reports his findings to the House of Commons.

60. Notional charge for statutory audit services for the year ended 31 March 2005:

HM Treasury	£70,000
Office of Government Commerce	£40,000
Debt Management Office	£21,000

61. The Comptroller and Auditor General also undertakes other statutory activities at no charge, that are not related to the audit of the Treasury's financial statements. During the course of the year he undertook two examinations of the economy, efficiency and effectiveness with which the Treasury and the Office of Government Commerce used their resources under the National Audit Act 1983 (value for money studies): *Improving Public Services Through Better Construction (HC 364 2004-2005, 15 March 2005)* and *Improving IT Procurement: The Impact of the Office of Government Commerce's Initiatives on Departments and Suppliers in the Delivery of Major IT-Enabled Projects* (HC 877 2003-2004, 5 November 2004).

Gus O'Donnell
Permanent Secretary 29 June 2005

STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Permanent Secretary as principal Accounting Officer of the department with overall responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the principal Accounting Officer is required to comply with the Resource Accounting Manual prepared by HM Treasury, and in particular to:

(i) observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

(ii) make judgements and estimates on a reasonable basis;

(iii) state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;

(iv) prepare the accounts on a going-concern basis.

Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the Debt Management Office and the Office of Government Commerce. The additional Accounting Officers are responsible for use of resources and associated assets, liabilities and cash flows under their control. These appointments do not detract from my responsibility as Accounting Officer for the Treasury's accounts. The Chief Executive of The Debt Management Office (Robert Stheeman) is Accounting Officer for the Debt Management Office and the Chief Executive of the Office of Government Commerce (Sir Peter Gershon to 31 March 2004, John Oughton from 1 April 2004) is Accounting Officer for the Office of Government Commerce.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.

Gus O'Donnell
Permanent Secretary 29 June 2005

STATEMENT ON INTERNAL CONTROL 2004-05

1. Scope of responsibility

1.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HM Treasury policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting .

1.2 The Treasury has three distinct operating units:

- The core of the Department. The Treasury is managed by the Permanent Secretary supported by the Treasury Board which includes the Permanent Secretary, the Second Permanent Secretary, five Managing Directors, the Director of Operations of the core Treasury, and four non-executive Directors (which include the Chief Executive of the OGC and the Executive Chairman HM Revenue and Customs). The Director of Policy and Planning and the Chair of the Council of Economic Advisors also sit on the Board but do not attend for discussions of management or staffing issues. The Chancellor is the responsible Minister supported by his ministerial team comprising of the Chief Secretary, the Paymaster General, the Financial Secretary and the Economic Secretary. From June 2005, the number of non-executive directors has been increased to five, of whom three carry no executive responsibilities in central government.

- The United Kingdom Debt Management Office (DMO), which is the core Treasury's only Executive Agency. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who is supported by the Financial Secretary. The DMO's Chief Executive is an Additional Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with the Framework Document.

- The Office of Government Commerce (OGC) is an independent office of the Treasury with its own Chief Executive (at Permanent Secretary level, who is also an Additional Accounting Officer) and Executive Board. The Financial Secretary is the responsible Minister.

1.3 Immediate responsibility for the systems of internal control in the Office of Government Commerce and in the UK Debt Management Office lies with their respective Chief Executives as Additional Accounting Officers. The division of responsibility between us is defined by Government Accounting (annex 4.1 http://www.government-accounting.gov.uk/current/frames.htm) and by a separate Memorandum, which we have agreed. In their capacity as Additional Accounting Officers the Chief Executives of both the OGC and DMO provide me with separate Statements on Internal Control, upon which I place reliance when signing this statement.

2. The purpose of the system of internal control

2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the changes described below the system of internal control has been in place in HM Treasury for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts. Throughout the year, the system has complied with Treasury guidance.

3. Capacity to handle risk

3.1 The Treasury's risk management framework was published in 2001. The framework is supplemented by guidance issued to Treasury staff on the recording and management of risks contained within the annual Directorate business plan guidelines. Senior management and Ministers in Treasury are committed to ensuring that risk is assessed and addressed across the organisation.

3.2 Key Treasury staff are trained in risk appraisal and management. Risk awareness is embedded in the Treasury Development Programme (TDP) courses, including training in public spending and project management, which key staff undertake. TDP also covers Treasury Guidance on investment appraisal, a robust prioritisation methodology based on risk ranking and cost-benefit analysis.

3.3 The Treasury's Project Management Centre, a virtual centre of excellence on project management also provides a central resource of skills and knowledge, supplementing resources in a number of key teams. Directorates and teams increasingly use formal project management methodology when initiating policies, programmes and projects, and this includes the assessment of risk at project or team level.

4. The risk and control framework

4.1 The Treasury aims to manage risks at the lowest level at which they are controllable. At the apex of the risk and control framework is the Treasury Board (whose members include the Managing Directors and the Director of Operations representing each Directorate). The Board is responsible for overall strategic risks to the department and maintains a high-level risk register, which it reviews on a regular basis. Each Public Service Agreement (PSA) target owner also reports on progress to the Treasury Board on a quarterly basis highlighting targets which are at risk and including an assessment of the risk to meeting targets. The Treasury Board also has a programme of regular horizon scanning in order to identify possible future events which may impact on Treasury objectives, and put in place means of mitigating any associated risks.

4.2 Key strategic priorities for the Treasury Board include management of risks associated with:

- the public finances and a stable macro-economic environment;
- the productivity of the economy;
- a fair dealing, competitive and efficient market in financial services;
- economic and employment opportunities;
- a fair and efficient tax and benefit system;
- the quality, cost-effectiveness and efficiency of public services;
- regularity, propriety and accountability in public finances;
- protecting and improving the environment; and
- productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.

Core Treasury

4.3 Following a review of the Treasury's corporate management structure, two sub-committees were created in September 2004 to support the Treasury Board. The sub-committees – Finance Committee and Operations Committee – meet monthly. The membership of the committees is made up of Treasury Managing Directors and Directors. These committees are accountable to the Board for financial and operational issues and decisions, and assess financial and management information monthly. The committees have been established to bring greater focus and expertise to important decisions on Treasury resource management and operations. Each of the two committees maintains a risk register on behalf of the Board, which are focused on their finance and operations remits. In addition, the Operations Committee has responsibility for maintaining and monitoring a register of key projects underway within the core Treasury including risks associated with those projects.

4.4 The Treasury is organised into operational directorates which carry main responsibility for major areas of work: budget and public finances; financial regulation and industry; government financial management; macroeconomic policy and international finance; public services; and a central directorate (Ministerial and Corporate Services, combining the previous Corporate Services Directorate and Permanent Secretary's Directorate) which provides corporate services, services to Ministers and legal advice. Each directorate maintains a risk register which forms part of its business plans, which is monitored and maintained by the directorate management teams during the year.

4.5 Many aspects of the Treasury's internal organisation are designed specifically to manage strategic risks to our objectives. For example, financial risk on the public expenditure side is managed in the public services directorate by a system based on teams for each major spending department and a central team, which oversees the whole. Spending plans are set with prudent reserves, calls on which are managed by a monthly reporting system from the spending teams to the central team. The identified residual risk is managed at the appropriate level. The Treasury Board is responsible for determining the appetite for risk within the organisation.

4.6 Risks to the Treasury's internal financial controls are reviewed as part of the devolved business planning process, with particular attention paid to risks with a high potential financial impact. Within directorates, effective role definitions are in place for Directorate Budget Coordinator and Budget Liaison Officer roles, and responsibility for budgets is appropriately delegated. The Treasury's Finance team issues guidance on the budgetary process, and supports and challenges Directorate budget setting, forecasting and reporting. Directorate Coordinators prepare monthly reports for their team leaders and Managing Directors. Since September 2004, the Finance team has prepared monthly reports for the Finance Committee (previously to Managing Directors) and these are copied to the Treasury Board. Quarterly reports on performance including finance are also provided to the Treasury Board.

4.7 Formal programme and project management disciplines are used for the Budget and other key projects. For example, use of project and risk management techniques helped the Treasury deliver Spending Review 2004 more cost effectively than Spending Review 2002. The centre of excellence in project management provides advice, guidance and consultancy support on project management for Treasury Teams and is working to embed the use of project management more widely throughout the organisation. As part of its management change programme the Treasury has developed and rolled out across the department a strategy and tools for developing and managing its external relations with key stakeholders.

OGC

4.8 OGC has its own risk management strategy and risk appetite statement, which are owned by the Board, acting as the Risk Committee. OGC runs regular risk management courses for its staff. Throughout the year, the OGC Board reviews OGC's top level risks to ensure that necessary mitigation action is being taken and is effective. Lower level risks are owned and managed at various levels of OGC.

4.9 During the period of this SIC two issues have arisen that affect the future capability of OGC. The first of these is OGC's new role in driving forward the Government's Efficiency Programme; and the second is the activity to prepare for the extension of OGC's remit across the wider public sector from 1 April 2005. As a result of these changes a decision was taken to re-organise OGC to ensure resources were properly aligned to deliver on this new agenda, and to provide support to both its existing customers in central civil government and its new wider public sector customers. This re-focussing of directorate services took place on 1 December 2004 and budgetary structures were aligned with the new organisation. New budget delegations were issued, and steps were taken to ensure a good audit trail from the old budgetary structure. The significant risks associated with this new work have been reflected in OGC's risk register.

DMO

4.10 The DMO has various formal mechanisms for managing the DMO's risks. A strong risk management culture is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO's risk management strategy seeks to maintain a strong risk management culture by linking organisational objectives to the business planning process. Organisational objectives cascade down to individual objectives and job descriptions. All teams have documented procedures for their main activities. Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO held risk workshops for operational staff on specific risk issues. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. Key risks and exceptions are documented in a regular report produced by the Risk Management Unit for the Risk Committee and the Managing Board.

5. Review of effectiveness

5.1 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5.2 Mechanisms to ensure effective management of risk and the ongoing review of the effectiveness of the risk management system are provided by the:

Board and Departmental management structure

- The Treasury Board meets six times a year to consider the plans and strategic direction of the Department;
- The Treasury Board maintains a core Treasury risk register and reviews this regularly;
- The Finance and Operations sub-committees maintain more detailed risk registers on behalf of the Board, focused on their finance and operations remits;
- There are regular progress reports to the Treasury Board from managers responsible for the Treasury's PSA targets, which include the steps they are taking to meet key performance indicators and manage risks in their areas of responsibility;
- Directorates have business plans which identify and keep up to date the key risks they face; and
- There is regular monitoring of key operational information technology and information systems projects, in line with OGC guidance; and
- The Accounting Officer has regular meetings with the Chief Executives of the OGC and DMO.

Audit Committee

- An audit committee considers governance, internal control and risk management. Its membership includes two non-executives including the Chairman. The Accounting Officer attends each meeting.

Internal Audit

- The effectiveness of the department's risk management, control and governance processes are kept under review as part of the annual work plan of the Treasury Internal Audit team. Their plans and resultant reviews are monitored by the Audit Committee at their meetings during the year. The team operate to HM Treasury's Government Internal Audit Standards; and
- The head of Internal Audit attends the Audit Committee meetings of both the OGC and the DMO.

Risk Improvement Manager

- The Treasury has a Risk Improvement Manager who ensures that there is support for directorates in improving risk management across the Treasury.

Gus O'Donnell
Permanent Secretary 29 June 2005

CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements on pages 18 to 59 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 27.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 11, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury Officer of Accounts, and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury Officer of Accounts, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 12 to 15 reflects the Department's compliance with Treasury Officer of Accounts' guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury Officer of Accounts, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of HM Treasury at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury Officer of Accounts; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

29 June 2005

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The maintenance and integrity of HM Treasury's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2005

	Estimate			Outturn			Net Total Outturn compared with Estimate saving/ (excess)	Prior Year Outturn
	Gross Expenditure	A-in-A	Net total	Gross Expenditure	A-in-A	Net total		
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 10)	245,511	(7,452)	238,059	204,185	(7,447)	196,738	41,321	221,072
Request for Resources 2 (Note 10)	38,109	(229)	37,880	35,047	(229)	34,818	3,062	34,107
Request for Resources 3 (Note 10)	55,646	(14,534)	41,112	50,035	(14,534)	35,501	5,611	36,376
Total Resources	**339,266**	**(22,215)**	**317,051**	**289,267**	**(22,210)**	**267,057**	**49,994**	**291,555**
Non-Operating Cost A-in-A			11,550			11,550	–	–
Net Cash Requirement			**228,131**			**190,988**	**37,143**	**187,475**

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Forecast 2004-05		**Outturn 2004-05**	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Total (Note 6)	86,768	*51,519*	93,076	*86,461*

The Summary of income payable to the Consolidated Fund in the 2003-04 Resource Accounts was understated by £206,051.54 (income and receipts).

Explanation of variance between Estimate and Outturn (net total resources):

The following paragraphs explain the causes of significant variances between the outurn for 2004-05 and the relevant Estimate limits for 2004-05. Explanations of significant variances from 2003-04 to 2004-05 in the Treasury's financial results, position and overall cash flows are given in the Operating and Financial Review.

Request for Resources 1: HMT (favourable variance £41,321k)

Most of the overall variance of £41.3m or 17.4% is made up of three non-cash items:

- The professional revaluation of 1 Horse Guards Road by the Valuation Office Agency led to a £10.9m credit to RfR 1. But the Treasury's Spring Supplementary Estimate had allowed for a £9.0m charge for a *downwards* revaluation, based on the property valuation indices available at the time. This represents £19.9m of the variance.
- The land at 100 Parliament Street, the east end of the site formerly known as Government Offices Great George Street, had been on the Treasury's balance sheet pending completion of the Private Finance Initiative refurbishment of the 100 Parliament Street building for HM Revenue and Customs. In November 2004, the refurbishment was completed and HMRC moved in. Towards the end of the year, the Treasury sold the land to HMRC at market value of £22.3m. Compared to the net book value of £14.1m, this gave rise to a gain on disposal of £8.2m. This variance could not be eliminated in the Spring Supplementary Estimate.
- Programme Costs (Annually Managed Expenditure) include the cost of capital charge on the Treasury's investment in the Bank of England. For 2004-05, there has been a 1% reduction in the rate of the charge. The provision in the Main Estimate was based on the previous, higher rate. This led to an underspend of £5.4m on the AME element of RfR 1 and the third main part of the variance.

The above three non-cash items make up £33.5m. The remainder of the variance (£7.8m or 3.3% of the RfR 1 net limit) is cash based and includes a £1.5m saving on grants to the Parliamentary bodies, due to one of the bodies funding its spending from accumulated reserves, £3m of early savings in the Department's efficiency programme, and an underspend of £2.3m on the DMO's programme costs, due to deferral of some planned project expenditure into 2005-06.

Request for Resources 2: HMT (favourable variance £3,062k)

The net Estimate amount of £37.9m is made up of £33.7m for net spending on coinage, within the Departmental Expenditure Limit (DEL), and a £4.2m provision for cost of capital charges on the Treasury's investment in the Royal Mint, within Annually Managed Expenditure (AME). The overall outturn on RfR 2 of £34.8m was £3.1m or 8.1% under the Estimate; £2.8m of the underspend was on the DEL coinage costs. At the time of the Spring Supplementary Estimate, the outturn on coinage was forecast to be an underspend of £2.6m. Given the inherent volatility of coinage demand, it was not sensible to reduce the Estimate at that stage.

Request for Resources 3: OGC (favourable variance £5,611k)

The overall outturn on RfR 3 was £35.5m, or 13.6% under the Estimate amount of £41.1m. The underspend against the Administration Cost Limit (£4.3m) is mainly attributable to the longer than expected timescale to prepare OGC for its new remit to work with the wider public sector from 1 April 2005. The underspend against Programme Costs is attributable to slower than anticipated expenditure of the Efficiency Challenge Funding (£0.6m) and a higher than expected release of surplus provision relating to property disposals from the Residual Estate property portfolio (£0.9m).

Explanation of the variation between Estimate and Outturn (Net Cash Requirement) (favourable variance £37,143k)

£11.3m of the underspend against the Net Cash Requirement (NCR) is attributable to incorrect treatment of non cash items in the preparation of the Spring Supplementary Estimate, whereby the deduction for non-cash items (£113,734k in the left hand column of the table below) was understated by £11,342k, with the result that the NCR was incorrectly increased by that amount.

The balance of the underspend against the NCR is £25.8m, and includes the £7.8m cash-based underspend on RfR 1, the £2.8m DEL underspend on RfR 2, £3.9m of the underspend on RfR 3, a shortfall of £3.2m on forecast capital expenditure due to project slippage, a £3.3m working capital movement for the OGC and cash used against provisions being £5.6m less than forecast.

The negative variance of £24.9m on non-cash items in the right hand column of the table is affected by the £11.3m incorrect treatment of non-cash items in the Estimate. Excluding that item, the underlying variance is £36.2m, and includes the three non-cash items within the resource underspend on RfR 1 referred to above totalling £33.5m. As a negative variance on this row of the table, they simply eliminate the positive variance included within the £50m total resource underspend in the first row, and the net effect of those three items on the NCR is nil.

The line for proceeds of fixed asset disposals only includes disposals for which authority to appropriate the proceeds in aid of expenditure was given in the Estimate. The proceeds of the disposal of 100 Parliament Street (£22.3m) and the residual shares in past privatisations (£1.7m) were surrendered to the Consolidated Fund, therefore they appear in Schedule 4 under the heading Capital Expenditure and Financial Investment, but not in Schedule 1.

Reconciliation of resources to net cash requirement

	Note	Estimate net total	OGC	HMT	Net total outturn	Net Total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000	£000	£000
Total resources		**317,051**	**35,501**	**231,556**	**267,057**	**49,994**
Capital:						
Acquisition of fixed assets – cash	13 & 14	19,125	3,399	4,262	7,661	11,464
Investments	15	–	8,274	–	8,274	(8,274)
Non-operating costs A-in-A:						
Proceeds of fixed asset disposals		(11,550)	(11,550)	–	(11,550)	–
Accrual adjustments						
Non-cash items	4 & 5	(113,734)	(1,481)	(87,269)	(88,750)	(24,984)
Changes in working capital other than cash	16	–	(3,293)	(94)	(3,387)	3,387
Changes in creditors falling due after more than one year	21	–	–	–	–	–
Use of provision	22	17,239	9,244	2,439	11,683	5,556
Net cash requirement (Schedule 4)		**228,131**	**40,094**	**150,894**	**190,988**	**37,143**

The notes on pages 24 to 59 form part of these accounts.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2005

		2004-05			2003-04 (restated)
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Administration costs					
Staff costs	3	18,547	63,383	81,930	77,848
Exceptional item – profit on sale	4	–	(8,168)	(8,168)	–
Exceptional item – building revaluation	4	–	(10,908)	(10,908)	–
Other administration costs	4	28,910	50,942	79,852	84,084
Gross administration costs		**47,457**	**95,249**	**142,706**	**161,932**
Operating income	7	(12,561)	(7,593)	(20,154)	(17,111)
Net administration costs		**34,896**	**87,656**	**122,552**	**144,821**
Programme costs					
Request for Resources 1: HM Treasury					
Expenditure	5		108,547	108,547	122,586
Less: income	7		(62,920)	(62,920)	(46,131)
			45,627	**45,627**	**76,455**
Request for Resources 2: UK Coinage					
Expenditure	5		35,047	35,047	34,107
Less: income	7		(704)	(704)	(1,078)
			34,343	**34,343**	**33,029**
Request for Resources 3: OGC					
Expenditure	5	2,421	–	2,421	6,671
Less: income	7	(6,224)	–	(6,224)	(6,261)
		(3,803)	**–**	**(3,803)**	**410**
Expenditure outside supply process					
Banking and gilts registration services	10	–	15,200	15,200	11,663
Net programme costs		**(3,803)**	**95,170**	**91,367**	**121,557**
Total net operating costs		**31,093**	**182,826**	**213,919**	**266,378**
Total net resource outturn	9	**35,501**	**231,556**	**267,057**	**291,555**

Comparators for 2003-04 have been restated as a result of a transfer of function (note 2).

Statement of Recognised Gains and Losses
for the year ended 31 March 2005

		2004-05			2003-04
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Net gain/(loss) on revaluation of tangible fixed assets	13	338	(695)	(357)	(1,503)
Net gain on revaluation of fixed investments	15.1	–	38,049	38,049	54,449
Net gain on revaluation of current investments	15.2	–	122	122	–
Net gain on revaluation of surplus freehold property	17	8,504	–	8,504	1,096
Other recognised gains for the financial year		**8,842**	**37,476**	**46,318**	**54,042**

The notes on pages 24 to 59 form part of these accounts.

SCHEDULE 3

Balance Sheet
as at 31 March 2005

		2005			2004 (restated)
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Fixed assets					
Tangible assets	13	9,295	98,707	108,002	123,023
Intangible assets	14	1,588	1,572	3,160	1,934
Investments	15.1	8,624	1,623,599	1,632,223	1,585,370
Total fixed assets		**19,507**	**1,723,878**	**1,743,385**	**1,710,327**
Debtors falling due after more than one year	19	260	6,407	6,667	6,924
Current assets					
Investments	15.2	–	–	–	1,526
Surplus freehold property	17	13,000	–	13,000	4,496
Stocks	18	–	287	287	291
Debtors due within one year	19	6,109	48,820	54,929	46,618
Cash at bank and in hand	20	7,927	20,875	28,802	18,216
Total current assets		**27,036**	**69,982**	**97,018**	**71,147**
Creditors: amounts falling due within one year	21	(18,711)	(87,301)	(106,012)	(82,586)
Net current assets/(liabilities)		**8,325**	**(17,319)**	**(8,994)**	**(11,439)**
Total assets less current liabilities		**28,092**	**1,712,966**	**1,741,058**	**1,705,812**
Creditors: amounts falling due after more than one year	21	–	(147,427)	(147,427)	(144,925)
Provisions for liabilities and charges	22	(11,939)	(4,172)	(16,111)	(28,245)
Net Assets		**16,153**	**1,561,367**	**1,577,520**	**1,532,642**
Taxpayers' equity					
Revaluation reserve	23	12,715	310,703	323,418	279,981
General fund	24	3,438	1,250,664	1,254,102	1,252,661
		16,153	**1,561,367**	**1,577,520**	**1,532,642**

Gus O'Donnell
Permanent Secretary

29 June 2005

The notes on pages 24 to 59 form part of these accounts.

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2005

	Note	2004-05 OGC £000	2004-05 HMT £000	2004-05 Total £000	2003-04 (restated) Total £000
Net cash outflow from operating activities (a)		**(35,754)**	**(87,949)**	**(123,703)**	**(129,523)**
Cash (outflow) from capital expenditure and financial investment (b)		486	19,863	20,349	(3,751)
Payments of amounts due to the Consolidated Fund		(5,571)	(65,794)	(71,365)	(144,196)
Financing (c)		42,760	142,545	185,305	193,204
Increase/(decrease) in cash in the period	20	**1,921**	**8,665**	**10,586**	**(84,266)**
Notes to the cash flow statement					
(a) Reconciliation of operating cost to operating cash flows					
Net operating cost (Schedule 2)		31,093	182,826	213,919	266,378
Adjust for non-cash transactions	4	(1,481)	(102,469)	(103,950)	(138,511)
Adjust for movements in working capital other than cash	16	(3,102)	5,153	2,051	(6,802)
Use of provisions	22	9,244	2,439	11,683	8,458
Net cash outflow from operating activities		**35,754**	**87,949**	**123,703**	**129,523**
(b) Analysis of capital expenditure and financial investment					
Tangible fixed assets additions	13	2,147	3,047	5,194	2,476
Intangible fixed assets additions	14	1,252	1,214	2,466	1,291
Investment additions	15	8,274	–	8,274	–
Proceeds of disposals of fixed assets		(12,159)	(24,124)	(36,283)	(16)
Net cash outflow/(inflow) for capital expenditure and financial investment		**(486)**	**(19,863)**	**(20,349)**	**3,751**
(c) Analysis of financing					
From the Consolidated Fund (Supply): current year		42,760	143,728	186,488	187,021
Capital element of on balance sheet PFI repayments	13.2	–	(1,183)	(1,183)	(1,189)
Transfer to Cabinet Office in respect of Honours and Dignities		–	–	–	(1,008)
Transfer from HMRC in respect of the O'Donnell Review		–	–	–	8,380
Net financing		**42,760**	**142,545**	**185,305**	**193,204**
(Increase)/decrease in cash	20	(1,921)	(8,665)	(10,586)	84,266
Net cash flows other than financing		**40,839**	**133,880**	**174,719**	**277,470**
Adjustment for payments and receipts not related to Supply:					
Amounts due to the Consolidated Fund – received in a prior year and paid over		(756)	(8,753)	(9,509)	(97,459)
Repayment received from the Consolidated Fund		–	–	–	4,344
Amounts due to the Consolidated Fund – received and not paid over	21	11	24,584	24,595	9,303
Transfer to Cabinet Office in respect of Honours and Dignities		–	–	–	1,008
Transfer from HMRC in respect of the O'Donnell Review		–	–	–	(8,380)
Supply financed repayment of financing					
Capital element of on balance sheet PFI financing	13.2	–	1,183	1,183	1,189
Net Cash Requirement for the year (Schedule 1)		**40,094**	**150,894**	**190,988**	**187,475**

Amount of grant actually issued to support the Net Cash Requirement: £186,488,000.00.

The notes on pages 24 to 59 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2005

Aim: To raise the rate of sustainable growth, and achieve rising prosperity, through creating economic and employment opportunities for all.

	2004-05			2003-04 (restated)
	Gross Expenditure	Income	Net	Net
	£000	£000	£000	£000
Objectives:				
(1) Maintaining a stable macroeconomic framework with low inflation;	93,832	(19,926)	73,906	86,041
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;	38,988	(10,515)	28,473	26,267
(3) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the very vulnerable;	16,230	(618)	15,612	13,882
(4) Increasing the productivity of the economy;	9,994	(511)	9,483	8,925
(5) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	54,741	(36,733)	18,008	37,682
(6) Expanding economic and employment opportunities for all;	4,028	(81)	3,947	4,553
(7) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	11,429	(227)	11,202	13,607
(8) Improving the quality and cost effectiveness of public services;	75,019	(19,967)	55,052	57,479
(9) Achieving a high standard of regularity, propriety and accountability in public finance;	9,503	(409)	9,094	9,086
(10) Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;	2,015	(56)	1,959	2,123
(11) Other resources required not falling under HM Treasury's ten main objectives.	(11,858)	(959)	(12,817)	6,733
Net operating cost	**303,921**	**(90,002)**	**213,919**	**266,378**

Where direct expenditure or income falls under a single objective, it is allocated wholly to that objective; expenditure and income that serves more than one objective is allocated in accordance with estimates made by relevant managers within the department. Central expenditure not specific to individual objectives has been apportioned in proportion to directly allocated costs. The other resources not falling under the ten main objectives include the two exceptional gains shown on Schedule 2, (£19m credit), grants to the Parliamentary bodies and the Statistics Commission (£4m) and the salary costs of the Prime Minister and the Government Whips.

The year on year reduction in net spending on objectives 1 and 5 is primarily due to the £12m reduction in the cost of capital charge on the Bank of England combined with the £8m increase in the dividend receivable from the Bank. The £9m increase in income receivable from Pool Re also reduces net spending on objective 5 (see notes 7 and 10).

Details of programme grants and other current expenditure are given in note 25.

The notes on pages 24 to 59 form part of these accounts.

NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the 2004-05 *Resource Accounting Manual* (RAM) issued by HM Treasury (HMT). The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The department's accounting policies have been applied consistently in dealing with items material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.2 Basis of Consolidation

These accounts comprise a consolidation of HMT and the Office of Government Commerce (OGC). In these accounts HMT includes the core department and its supply financed agency the Debt Management Office (DMO). The DMO produces and publishes its own accounts. The OGC maintains its own financial accounting records, providing data to the core department for input to the consolidated accounts. Transactions between the core department, the DMO and the OGC are eliminated.

The accounts of the Royal Mint, OGCbuying.solutions (Trading Funds) and the Bank of England (incorporated by Royal Charter) are not included by way of consolidation. Financial information about them may be obtained from their separately published annual report and accounts.

HMT has a number of stewardship functions in relation to management of the government's debt and foreign currency reserves. As HM Treasury has no ownership responsibility for the assets and liabilities that it is managing in carrying out this duty, these assets and liabilities do not appear in HMT's resource accounts. They are, however, fully disclosed in the following accounts:

Consolidated Fund and National Loans Fund Accounts	International subscriptions
National Loans Fund Accounts and the Debt Management Account	Government Debt
Exchange Equalisation Account	Gold Reserves
Foreign securities and currencies reserves	IMF Special Drawing Rights

1.3 Tangible Fixed Assets

The threshold for capitalising tangible fixed assets is £5,000 except for antiques where no threshold is set.

Title to the freehold land and buildings used by the Department, is held by the Office of the Deputy Prime Minister.

Land and buildings are professionally valued every five years or when material changes are known to have arisen. In the intervening years revaluations are effected by professional review or calculated using indices.

HM Treasury's land and buildings at 1 Horse Guards Road was professionally valued as at 31 March 2005.

Furniture and equipment and IT equipment are stated at the depreciated current cost based on indices.

Antiques in use are stated at estimated market value as at 31 March 2005.

The revaluation of other fixed assets has been calculated in line with the indices provided by HM Treasury in PES (2005) 03 Updated Forecast Indices for Assets or the Office for National Statistics in their publication 'Price index numbers for current cost accounting', where the former are not appropriate.

1.4 Intangible Fixed Assets

These represent software licences, which are stated at depreciated current cost based on indices. The revaluation has been calculated in line with the indices provided by HM Treasury in PES (2005) 03 Updated Forecast Indices for Assets.

The threshold for capitalising intangible fixed assets is £5,000.

1.5 Depreciation

Freehold land and antiques have not been depreciated.

The charge for depreciation is calculated to write down the cost or valuation of fixed assets to their estimated residual values by equal instalments over their estimated useful lives, which are as follows:

Freehold and long leasehold buildings	40 to 50 years
Furniture, fixtures and fittings	5 to 10 years
Office and other non-IT equipment	3 to 5 years
Leasehold improvements	over lease term
Computer and telecom hardware, software and licences	3 to 10 years
Whitehall Systems	20 to 60 years
Other plant and machinery	10 to 15 years

Depreciation is charged in the month following acquisition up to the month prior to disposal.

1.6 Development Expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the RAM, which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.

1.7 Investments

Investments recorded as assets on the balance sheet are valued as follows:

(i) Public dividend stock held within the Royal Mint and OGCbuying.solutions and bonds held in Partnerships UK are shown as at nominal value;

(ii) The investment in the Bank of England is shown at 100% of the Bank's net assets as at 28 February 2005. The investment in Partnerships UK is shown at 44.56% of its net assets as at 31 March 2005.

1.8 Stocks

Under the Treasury's contract with the Royal Mint, returned scrap and obsolete coinage belong to the Treasury. They are shown in the balance sheet at net realisable value as scrap metal, prior to being sold on.

1.9 Operating Income

Operating income relates directly to the operating activities of the department. It includes recharges at full cost for services provided and investment income. It includes budgeted and non-budgeted income arising from the activities of the Treasury, some of which is used to offset operational costs ("appropriated-in-aid") and some of which is payable to the Consolidated Fund directly ("not appropriated-in-aid"). Income from Pool Re is payable to HMT out of surplus funds recognised after a lapsed period.

1.10 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department.

Reversals of previous impairments and downward revaluations of fixed assets and investments are taken to the OCS to the extent that they increase the carrying amount of the fixed asset up to the amount that it would have been had the original impairment not occurred.

1.11 Capital Charge

A non-cash charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the government's standard rate of 3.5% (2003-04: 3.5%) in real terms on the average carrying amount of all assets less liabilities except:

(i) where individual rates of return have been set for investments in the Bank of England (6%) (2003-04: 7%), the Royal Mint (7.8%) (2003-04: 5.1%) and OGCbuying.solutions (8%) (2003-04: 8%) which are applied to the underlying net assets of each body; in respect of the Royal Mint the cost of capital charge has been abated by the amount of interest payable on long term loans to the National Loans Fund.

(ii) for donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General where the charge is nil.

(iii) for assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund, where the charge is nil.

1.12 Foreign Exchange

Transactions which are denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of the transactions.

1.13 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS), which are described in Note 3. The defined benefit schemes are unfunded and are contributory. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

1.14 Early Departure Costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The department provides for the costs when the early retirement is agreed and binding on the department, effectively charging the full cost at the time of the decision and holding this in a provision. In the past the department has been able to settle some of its liabilities by making an advance payment to the Paymaster General's Account for the credit of the Civil Service Superannuation Request for Resources. The sum of the remaining advanced funding yet to be applied is included within the debtors balance. A provision has been established for the total liability falling on the department for all agreed early retirement cases gross of any advanced funding made. The liability shown in the balance sheet has been discounted using a 3.5% (2003-04: 3.5%) discount rate in line with HM Treasury guidance.

1.15 Surplus Property for Disposal

The OGC holds surplus property for disposal, consisting of vacant Civil Estate properties defined as exploitable sites. The valuation of these is at market value based on the likely selling price of one and cost of disposal of the other.

Valuation

Freehold and long leasehold land and buildings are recognised as current assets for disposal at their market value at 31 March 2005. The properties are periodically independently valued at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors and are revalued in line with appropriate indices in the intervening years.

Leasehold Provisions

The leases on vacant leasehold properties are regarded as onerous contracts under Financial Reporting Standard (FRS) 12. Therefore, the future liabilities on leaseholds are provided for, and subsequently payments under the leases are charged against the provision. These liabilities are assessed on the basis of the net present value of the future cash flows associated with the lease, discounted at 3.5% (2003-04: 3.5%) in line with HM Treasury guidance.

1.16 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No1 (revised), entitled ''How to account for PFI Transactions'' as required by the Resource Accounting Manual. Where the balance of risk and rewards of ownership of the PFI property are borne by the department, the department shows an asset on its balance sheet for the fair value of the property, with an offsetting creditor being paid off during the life of the PFI contract through attribution of part of the unitary payments. The balance of the unitary payments are recorded as other administration costs, analysed between interest charges and service charges. The creditor is adjusted annually to reflect the indexation of the unitary payment in accordance with the contract. The adjustment does not form part of the unitary payment but is charged to the operating cost statement as non-cash administration costs.

1.17 Operating leases

Operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease.

1.18 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the department discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprised:

Items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the department entering into the arrangement.

All items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statue or where material in the context of the resource accounts), which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12, are stated at discounted amounts and at the amount reported to Parliament separately noted. Contingent liabilities not required to be disclosed by FRS 12, are stated at the amounts reported to Parliament.

1.19 Value Added Tax

Many activities of the department are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

2.0 TRANSFER OF FUNCTIONS FROM INLAND REVENUE AND CUSTOMS AND EXCISE

The implementation of the O'Donnell Review has meant that responsibility for tax policy has transferred from the Inland Revenue and Customs and Excise to the Treasury – this transfer of function has resulted in 150 full-time equivalent posts being transferred to the department during 2004-05. Following the disclosure requirements of FRS 6, the results, cash flows and assets relating to the transferred activities have been included from the start of the financial year. Prior year comparatives have been restated (note 24).

The direct cost of the function transferred to Request for Resource 1, for the year ended 31 March 2005 were:

	£000
Staff costs	6,441
Other admin costs	1,231
Total	**7,672**

This total excludes centrally recorded overhead costs, such as utilities, stationery and IT support, which are not allocated to individual directorates or teams.

3. STAFF NUMBERS AND COSTS

3.1 Analysis of total costs over categories

	2004-05					2003-04 (restated)
	Ministers	Special Advisors	Officials	Others	Total	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,548	594	61,655	3,439	67,236	63,885
Social Security costs	158	70	5,548	–	5,776	5,408
Other pension costs	–	89	8,829	–	8,918	8,555
Total costs	**1,706**	**753**	**76,032**	**3,439**	**81,930**	**77,848**
Less recoveries (income) in respect of outward secondments	–	–	(2,794)	–	(2,794)	(1,853)
Total net costs	**1,706**	**753**	**73,238**	**3,439**	**79,136**	**75,995**

	OGC	HMT	Total	Total
	£000	£000	£000	£000
Wages and salaries	15,378	51,858	67,236	63,885
Social Security costs	1,225	4,551	5,776	5,408
Other pension costs	1,944	6,974	8,918	8,555
Total costs	**18,547**	**63,383**	**81,930**	**77,848**
Less recoveries in respect of outward secondments	(141)	(2,653)	(2,794)	(1,853)
Total net costs	**18,406**	**60,730**	**79,136**	**75,995**

In addition to the above, £631k (2003-04: £157k) of staff costs have been charged to capital projects. The costs of Special Advisors include the Council of Economic Advisors.

Recoveries of £2,794k (2003-04: £1,853k) are shown as income in the operating cost statement.

3.2 Whole-time equivalents analysed over objectives

The average number of whole-time equivalent persons employed during the year was as follows:

3.2.1 OGC average staff numbers

	2004-05 Number					2003-04 (restated) Number
Objective	Ministers	Special Advisors	Officials	Others	Total	Total
8	–	–	385	44	429	386
Total	**–**	**–**	**385**	**44**	**429**	**386**

3.2.2 HMT (including DMO) average staff numbers

			2004-05			2003-04 (restated)
			Number			Number
Objective	Ministers	Special Advisors	Officials	Others	Total	Total
1	0.2	0.4	65.4	1.7	67.7	106.7
2	1.1	1.9	248.9	8.1	260.0	261.6
3	0.6	1.2	160.2	4.3	166.3	177.8
4	0.6	1.0	130.0	3.8	135.4	131.3
5	0.3	0.5	72.4	2.1	75.3	81.2
6	0.2	0.4	35.7	0.9	37.2	70.8
7	0.4	0.7	96.8	2.5	100.4	158.5
8	1.0	1.6	209.7	6.1	218.4	226.9
9	0.5	0.8	112.1	4.3	117.7	101.4
10	0.1	0.1	18.4	0.5	19.1	23.9
11	–	–	–	–	–	–
Staff Engaged On Capital Projects	–	–	13.0	6.5	19.5	3.5
Total	**5.0**	**8.6**	**1,162.6**	**40.8**	**1,217.0**	**1,343.6**

The above table only includes Ministers that directly contribute to HMT's objectives.

3.3 Salaries and pension entitlements of HM Treasury Ministers and Senior Management

The following sections shows the salaries and pension entitlements of the most senior civil servants as a result of their employment by HM Treasury, and those of Ministers who have a direct influence on managing or controlling the activities of the Treasury.

Salary

Salary includes gross salary, performance pay or bonuses payable, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

This presentation is based on payments made by the department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP is £57,485 (2003-04: £55,118) and various allowances to which they are entitled are borne centrally. The arrangement for Ministers in the House of Lords is different in that they do not receive a salary but instead an additional remuneration, which cannot be separated from their ministerial salaries. This total remuneration as well as the allowances to which they are entitled, is paid by the department and therefore is shown in total in the figures in this account.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits in kind disclosed below for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street. Those for the Permanent Secretary and Chief Executive of the OGC relate to their official cars. In addition, Ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. The Treasury has an agreement with the Inland Revenue to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

3.3.1 Salaries of Ministers

Name	2004-05 Ministerial salary received (£)	2004-05 Benefits in kind (rounded to nearest £100)	2003-04 Ministerial salary received (£)	2003-04 Benefits in kind (rounded to nearest £100)
Gordon Brown *Chancellor of the Exchequer*	72,862	16,900	71,433	19,700
Paul Boateng *Chief Secretary to the Treasury*	72,862	–	71,433	–
Dawn Primarolo *Paymaster General*	37,796	–	37,055	–
Ruth Kelly *Financial Secretary to the Treasury (to 9.9.04)*	18,898[1]	–	37,055	–
Stephen Timms *Financial Secretary to the Treasury (from 9.9.04)*	15,748[2]	–	–	–
John Healey *Economic Secretary to the Treasury*	28,688	–	28,125	–

[1]The full year equivalent is £37,798.
[2]The full year equivalent is £37,798.

3.3.2 Salaries of Senior Management

Name	2004-05 Salary including performance pay (£k)	2004-05 Benefits in kind (rounded to nearest £100)	2003-04 Salary including performance pay (£k)	2003-04 Benefits in kind (rounded to nearest £100)
Gus O'Donnell *Permanent Secretary*	180 – 185	5,100	165 – 170	4,700
Sir Nicholas Stern *Managing Director (to 6-10-03)* *Second Permanent Secretary (from 6-10-03)*	*160 – 165*	–	*85 – 90*	–
Jon Cunliffe *Managing Director*	*120 – 125*	–	*110 – 115*	–
Hilary Douglas *Managing Director (to 30-11-04)*	75 – 80[3]	–	120 – 125	–
Mary Keegan *Managing Director (from 1-9-04)*	85 – 90[4]	–	–	–
Professor Sir Andrew Likierman *Managing Director (to 30-12-03) (part-time basis)*[5]	–	–	65 – 70	–
Nicholas Macpherson *Managing Director*	125 – 130	–	110 – 115	–
James Sassoon *Managing Director*	165 – 170	–	160 – 165	–
Jonathan Stephens *Managing Director (from 29-7-04)*	70 – 75[6]	–	–	–
Sam Beckett *Director of Operations (from 22.11.04) (part time basis)*	20 – 25[7]	–	–	–
John Oughton *Chief Executive OGC (from 1-4-04)*	120 – 125	5,200	–	–
Sir Peter Gershon *Chief Executive OGC (to 31-3-04)*	–	–	205 – 210	5,000
Robert Stheeman *Chief Executive DMO*	120 – 125	–	110 – 115	–
Margaret Exley *Non-Executive Director*	5 – 10	–	5 – 10	–
Sir Peter Gershon *Non-Executive Director (from 1-4-04)*	5 – 10	–	–	–
David Varney *Non-Executive Director (from 27-7-04)*	Nil	–	–	–

[3] The full year equivalent is 115 – 120.
[4] The full year equivalent is 150 – 155.
[5] Professor Sir Andrew Likierman was on a fixed term contract that came to an end on 31 December 2003 (age retirement), following which he moved to a consultancy basis contract pending the arrival of Mary Keegan. In addition to the salary above consultancy fees of £20k in 2004-05 and £24k in 2003-04 were paid to Sir Andrew.
[6] The full year equivalent is 105 – 110.
[7] The full year equivalent is 60 – 65.

3.3.3 Pension entitlements and schemes: Ministers

2004-05

Name	Real increase in pension at age 65 (£k)	Total accrued pension at age 65 at 31/03/05 (£k)	CETV at 31/03/04 (nearest £k)	CETV at 31/03/05 (nearest £k)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £k)
Gordon Brown *Chancellor of the Exchequer*	0 – 2.5	10 – 15	118	142	11
Paul Boateng *Chief Secretary to the Treasury*	0 – 2.5	5 – 10	75	99	11
Dawn Primarolo *Paymaster General*	0 – 2.5	5 – 10	55	67	5
Ruth Kelly *Financial Secretary to the Treasury (to 9-9-04)*	0 – 2.5	0 – 5	14	16	1
Stephen Timms *Financial Secretary to the Treasury (from 9-9-04)*	0 – 2.5	5 – 10	50	55	–
John Healey *Economic Secretary to the Treasury*	0 – 2.5	0 – 5	16	23	3

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution). Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This takes account of the increase in accrued pension due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

3.3.4 Pension entitlements and schemes: Senior Management

2004-05

Name	Real increase in pension and related lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/03/04 and related lump sum (£k)	CETV at 31/03/04 (to nearest £k)	CETV at 31/03/05 (to nearest £k)	Real increase in CETV after adjustment for inflation and changes in market investment factors (to nearest £k)
Gus O'Donnell *Permanent Secretary*	2.5 – 5 plus lump sum 12.5 – 15.0	60 – 65 plus lump sum 185 – 190	890	1018	72
Sir Nicholas Stern *Managing Director (to 6-10-03) Second Permanent Secretary (from 6-10-03)*	0 – 2.5	60 – 65	855	936	29
Jon Cunliffe *Managing Director*	2.5 – 5 plus lump sum 10.0 – 12.5	35 – 40 plus lump sum 105 – 110	492	577	53
Hilary Douglas *Managing Director (to 30-11-04)*	0 – 2.5 plus lump sum 5.0 – 7.5	40 – 45 plus lump sum 120 – 125	669	721	28
Mary Keegan *Managing Director (from 1-9-04)*	0 – 2.5	0 – 5	–	13	11
Nicholas Macpherson *Managing Director*	2.5 – 5 plus lump sum 10.0 – 12.5	25 – 30 plus lump sum 80 – 85	310	376	35
James Sassoon *Managing Director*	0 – 2.5	0 – 5	25	46	16
Jonathan Stephens *Managing Director (from 29-7-04)*	2.5 – 5 plus lump sum 7.5 – 10.0	25 – 30 plus lump sum 85 – 90	331	388	34
Sam Beckett *Director of Operations (from 22-11-04) (part time basis)*	0 – 2.5 plus lump sum 0 – 2.5	10 – 15 plus lump sum 35 – 40	173	194	11
John Oughton *Chief Executive OGC (from 1-4-04)*	7.5 – 10 plus lump sum 22.5 – 25	45 – 50 plus lump sum 145 – 150	589	748	123
Robert Stheeman *Chief Executive DMO*	0 – 2.5	0 – 5	24	41	15

Civil Service pensions

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

3.4 Additional ministerial salaries borne by HM Treasury

In addition, the Treasury bears the ministerial salaries of the following:

Official title	Name	**2004-05** Salaries	**2003-04** Salaries
		£000	£000
Prime Minister	Tony Blair	120 – 125	115 – 120
Chief Whip (Commons)	Hilary Armstrong	70 – 75	70 – 75
Deputy Chief Whip (Commons)	Keith Hill (to 13-6-03)	–	5 – 10
	Robert Ainsworth (from 14-6-03)	35 – 40	25 – 30
Chief Whip (Lords)	Lord Grocott	115 – 120	110 – 115
Deputy Chief Whip (Lords)	Lord McIntosh (to 13-6-03)	–	20 – 25
	Lord Davies of Oldham (from 14-6-03)	95 – 100	90 – 95
Lords in waiting (6 posts)		510 – 515	470 – 475
Government and Assistant Government Whips (14 posts)		340 – 345	345 – 350

4. OTHER ADMINISTRATION COSTS

	2004-05			2003-04 (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Staff-related costs, including training and travel	2,845	5,651	8,496	10,219
Accommodation costs:				
Interest element of on-balance sheet PFI contract (note 13.2)	–	10,745	10,745	10,435
Service element of on-balance sheet PFI contract	–	3,860	3,860	3,807
Indexation of liability on PFI contract (non-cash)	–	3,810	3,810	4,413
Other accommodation costs	6,460	5,102	11,562	10,949
Office services	1,785	10,330	12,115	13,031
Consultancy and legal costs	13,503	8,056	21,559	17,153
Other	1,992	60	2,052	4,332
Non cash items				
Depreciation and similar charges:				
Depreciation and amortisation of fixed assets	1,491	3,099	4,590	4,667
(Gain) on disposal of 100 PS	–	(8,168)	(8,168)	–
Loss/(gain) on disposal of other fixed assets	(8)	(39)	(47)	123
Loss/(gain) on revaluation of 1HGR building	–	(10,908)	(10,908)	547
Loss/(gain) on revaluation of other fixed assets	103	224	327	267
Loss on change in capitalisation threshold	–	–	–	1,417
Auditor's remuneration	40	91	131	131
Cost of capital	269	(2,286)	(2,017)	(1,511)
Provisions:				
Provided in year	357	2,160	2,517	3,917
Release of surplus provision	–	–	–	(199)
Unwinding of discount on provision	73	79	152	175
Increase in provision due to change in discount rate	–	–	–	211
Total	**28,910**	**31,866**	**60,776**	**84,084**
Other administration costs include:				
Hire of plant and machinery	72	98	170	179
Other operating leases	3,802	1,116	4,918	5,029
Research and development expenditure	166	153	319	314

No payments were made to the auditors in respect of non-audit services.

Reconciliation of non cash transactions appearing in Schedule 1 and Schedule 4

	2004-05		
	OGC	HMT	Total
	£000	£000	£000
Other administration costs – non cash items (as above)	2,325	(11,878)	(9,553)
Other non-cash amounts charged to operating expenditure (note 5)	(844)	99,147	98,303
Total non-cash transactions Schedule 1	**1,481**	**87,269**	**88,750**
Non-supply costs	–	15,200	15,200
Total non-cash transactions Schedule 4	**1,481**	**102,469**	**103,950**

5. NET PROGRAMME COSTS

	2004-05	2003-04
	£000	£000
Request for Resources 1: HM Treasury		
Current grants	3,184	5,424
Cost of capital	95,689	107,781
(Gain)/loss on revaluation of investments	(506)	(243)
Other current expenditure	10,180	9,624
	108,547	**122,586**
Request for Resources 2: UK Coinage		
Cost of capital	3,963	2,339
Other current expenditure	31,084	31,768
	35,047	34,107
Non-supply – Banking and gilts registration services (note 10.3)	15,200	11,663
Total HMT programme costs	**158,794**	**168,356**
Request for Resources 3: OGC		
Whitehall Systems running costs	1,908	2,360
Whitehall Systems depreciation (note 13.3)	643	1,419
Efficiency Challenge Fund Expenditure	750	–
Cost of capital	1,594	817
Transfer from leasehold property provision	(3,760)	(3,678)
Transfer from specific dilapidations & legal provision	–	17
Unwinding of discount on provisions	678	760
Increase in provision due to change in discount rate	–	3,442
Other current expenditure	608	1,534
Total OGC programme costs	**2,421**	**6,671**
Sub total programme costs	**161,215**	**175,027**
Less programme income		
Request for Resources 1 – HM Treasury (note 7)	(62,920)	(46,131)
Request for Resources 2 – UK Coinage (note 7)	(704)	(1,078)
Request for Resources 3 – OGC (note 7)	(6,224)	(6,261)
	(69,848)	**(53,470)**
Net Programme Costs	**91,367**	**121,557**

6. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

In addition to appropriations in aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Forecast 2004-05		**Outturn 2004-05**	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A-in-A	–	–	11,387	*11,572*
Non-operating income and receipts – excess A-in-A	–	–	–	–
Sub total	–	–	11,387	*11,572*
Other operating income and receipts not classified as A-in-A	61,428	*51,489*	56,951	*50,768*
Other non-operating income and receipts not classified as A-in-A	23,825	*30*	24,738	*24,121*
Other amounts collectable on behalf of the Consolidated Fund	1,515	–	–	–
Total	**86,768**	***51,519***	**93,076**	***86,461***

7. INCOME AND APPROPRIATIONS-IN-AID

Operating income analysed by activities:

	2004-05				2003-04 (restated)
	Appropriated in Aid	Transactions between requests for resources	Payable to Consolidated Fund	Income included in OCS	Income included in OCS
	£000	£000	£000	£000	£000
HMT					
Administration income					
Core Treasury Activities	1,001	(157)	3,415	4,259	3,072
DMO	–	–	3,334	3,334	2,551
	1,001	**(157)**	**6,749**	**7,593**	**5,623**
Programme income					
Request for Resources 1: HM Treasury					
Pool Re insurance premiums (note 7.3)	–	–	17,504	17,504	8,528
Troika insurance premiums	–	–	153	153	62
Bank of England dividend	–	–	37,867	37,867	29,600
Profit on disposal of investments	–	–	–	–	14
Other current programme income	5,598	–	(53)	5,545	5,979
Other dividends and interest	–	–	1,001	1,001	766
DMO	848	–	2	850	1,182
	6,446	**–**	**56,474**	**62,920**	**46,131**
Request for Resources 2: UK Coinage					
Sale of coinage scrap metal	229	–	475	704	328
Royal Mint Dividend	–	–	–	–	750
	229	**–**	**475**	**704**	**1,078**
Total programme income HMT	**6,675**	**–**	**56,949**	**63,624**	**47,209**
Total operating income HMT	**7,676**	**(157)**	**63,698**	**71,217**	**52,832**
OGC					
Administration income					
Allowable within admin. cost limit	10,578	–	1,823	12,401	11,343
Other income	147	–	13	160	145
Total administration income OGC	**10,725**	**–**	**1,836**	**12,561**	**11,488**
Programme income					
Management and disposal of vacant property	1,083	–	1,789	2,872	1,275
Whitehall Systems	1,751	(389)	610	1,972	3,748
Other income	975	–	405	1,380	1,238
Total programme income OGC	**3,809**	**(389)**	**2,804**	**6,224**	**6,261**
Total operating income OGC	**14,534**	**(389)**	**4,640**	**18,785**	**17,749**
Department total operating income	**22,210**	**(546)**	**68,338**	**90,002**	**70,581**

7.1 Non-operating income not classified as A in A

HMT

In addition to the above, non-operating income of £24,118k (2003-04: £15k) relating to the disposal of fixed assets and investments is payable to the Consolidated Fund. This comprises £22,326k (disposal of 100 Parliament Street), £86k (disposal of antique fixture and fittings in 100 Parliament Street) and £1,706k (disposal of current investments).

OGC

In addition to the above, non-operating income of £620k (2003-04: nil) relating to the disposal of fixed assets and investments is payable to the Consolidated Fund. This comprises £609k of excess non-operating appropriations in aid arsing from the disposal by OGC of the Whitehall District Heating System and the Whitehall Standby Distribution System (see below) and £11k as a result of the disposal of plant and machinery.

7.2 Non-operating appropriations in aid

In addition to the above, non-operating income classified as appropriations in aid of £11,550k (2003-04: nil) arose as a result of the disposal by OGC of the Whitehall District Heating System and the Whitehall Standby Distribution System.

7.3 Pool Re

Income from Pool Re arises under The Reinsurance (Acts of Terrorism) Act 1993, under which the Treasury provides reinsurance for terrorist attacks on commercial or industrial property. Pool Re pays a premium to the Treasury, subject to a threshold level of funds.

8. ADMINISTRATION COST LIMITS

	2004-05		2003-04	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for Resources 1 (HMT Gross Limit)	94,405	119,367	104,457	109,577
Request for Resources 2 (HMT Gross Limit)	–	–	–	–
Request for Resources 3 (OGC Gross Limit)	36,732	41,025	35,473	36,811
	131,137	**160,392**	**139,930**	**146,388**

Administration Costs Limits Outturn excludes non-cash administration costs and is net of income allowable against the Gross Limit.

9. RECONCILIATION OF NET OPERATING COSTS TO NET RESOURCE OUTTURN

	2004-05			2003-04 (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Net Operating Costs	31,093	182,826	213,919	266,378
Less: Non-Supply expenditure in resource budget	–	(15,200)	(15,200)	(11,663)
Add: Operating income not appropriated-in-aid	4,640	63,698	68,338	44,212
Transactions between requests for resources	(232)	232	–	–
Add: Transfer of Function in respect of Honours and Dignities	–	–	–	1,008
Subtract: Transfer of Function in respect of Inland Revenue and Customs and Excise (see Note 2)	–	–	–	(8,380)
Net Resource Outturn	**35,501**	**231,556**	**267,057**	**291,555**

10. ANALYSIS OF NET RESOURCE OUTTURN BY ESTIMATE SUBHEAD AND RECONCILIATION TO NET OPERATING COST

	2004-05								2003-04 (restated)
	Admin	Other Current	Current Grant	Gross Resource Expend	A-in-A	Net Total Outturn	Estimate	Net Total Outturn compared with Estimate	Net Total Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1: HM Treasury									
Departmental Expenditure Limit									
Core Treasury	85,861	8,903	–	94,764	(6,599)	88,165	119,536	31,371	99,944
DMO	9,777	1,277	–	11,054	(848)	10,206	12,627	2,421	8,047
Parliamentary bodies	–	–	1,589	1,589	–	1,589	3,049	1,460	4,070
Statistics Commission	–	–	1,595	1,595	–	1,595	1,750	155	1,338
Investment in PUK	–	392	–	392	–	392	851	459	1,007
Privatisation Program	–	55	–	55	–	55	63	8	53
Annually Managed Expenditure									
Investment in Bank of England	–	94,736	–	94,736	–	94,736	100,183	5,447	106,613
	95,638	**105,363**	**3,184**	**204,185**	**(7,447)**	**196,738**	**238,059**	**41,321**	**221,072**
Request for Resources 2: UK Coinage									
Departmental Expenditure Limit									
Other current expenditure	–	31,084	–	31,084	(229)	30,855	33,700	2,845	31,768
Annually Managed Expenditure									
Cost of capital	–	3,963	–	3,963	–	3,963	4,180	217	2,339
	–	**35,047**	**–**	**35,047**	**(229)**	**34,818**	**37,880**	**3,062**	**34,107**
HMT (Supply)	**95,638**	**140,410**	**3,184**	**239,232**	**(7,676)**	**231,556**	**275,939**	**44,383**	**255,179**
Request for Resources 3: OGC									
Departmental Expenditure Limit									
Administration	47,614	–	–	47,614	(10,725)	36,889	41,025	4,136	35,473
Programme activity	–	2,421	–	2,421	(3,809)	(1,388)	87	1,475	903
OGC	**47,614**	**2,421**	**–**	**50,035**	**(14,534)**	**35,501**	**41,112**	**5,611**	**36,376**
Resource Outturn	**143,252**	**142,831**	**3,184**	**289,267**	**(22,210)**	**267,057**	**317,051**	**49,994**	**291,555**
Bank and gilts registration services (expenditure outside supply process (note 10.3))						15,200			11,663
Income payable to the Consolidated Fund (note 7)						(68,338)			(44,212)
Transfer of Honours & Dignities						–			(1,008)
Transfer of Function in respect of Inland Revenue and Customs and Excise (note 2)						–			8,380
Net Operating Cost						**213,919**			**266,378**

10.1 Request for Resources

These functions correspond to the disaggregation of Requests for Resources for control purposes and Parliamentary approval. They do not correspond to departmental objectives, which reflect a disaggregation of departmental aims for management activities. (For an analysis of Appropriations-in-Aid see Note 7.)

10.2 Key to Requests for Resources

Request for Resources 1: Raising the rate of sustainable growth and achieving rising prosperity and a better quality of life, with economic and employment opportunities for all.

Request for Resources 2: Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Request for Resources 3: Obtaining the best value for money for Government's commercial relationships on a sustainable basis.

10.3 Expenditure outside supply process

This relates to payments to the Bank for debt management, which are funded from the National Loans Fund, and the costs the Bank incurs in managing the Exchange Equalisation Account, which are debited directly from the account. It also relates to payments made from the National Loans Fund to Computershare Investor Services plc who formally took over from the Bank as the registrar for UK Government bonds, known as gilts, in December 2004.

11. ANALYSIS OF NET OPERATING COST

This note analyses funding by the Department to the relevant spending body.

	2004-05		2003-04 (restated)
	Budget	Outturn	Outturn
	£000	£000	£000
Spending Body			
Her Majesty's Treasury	215,285	169,436	220,689
Office of Government Commerce	41,112	31,093	32,394
DMO	12,627	10,206	8,087
Parliamentary Bodies	3,049	1,589	3,870
Statistics Commission	1,750	1,595	1,338
	273,823	**213,919**	**266,378**

12. ANALYSIS OF CAPITAL EXPENDITURE, FINANCIAL INVESTMENT AND ASSOCIATED A-in-A

	2004-05				2003-04
	Capital Expend.	Loan to OGCb.s	A in A	Net total	Net Total
	£000	£000	£000	£000	£000
Request for Resources 1	4,261	–	–	4,261	1,371
Request for Resources 2	–	–	–	–	–
Request for Resources 3	3,399	8,274	(11,550)	123	2,396
Total	**7,660**	**8,274**	**(11,550)**	**4,384**	**3,767**

13. TANGIBLE FIXED ASSETS

Summary	OGC	HMT	Total
	£000	£000	£000
Cost/valuation			
At 1 April 2004	47,975	110,563	158,538
Reclassification from Intangibles	–	94	94
Additions	2,147	3,047	5,194
Disposal	(38,144)	(15,239)	(53,383)
Revaluation – reserve movement	788	(695)	93
Profit/(Loss) on revaluation charged to OCS	(39)	6,848	6,809
At 31 March 2005	**12,727**	**104,618**	**117,345**
Accumulated depreciation			
At 1 April 2004	27,259	8,256	35,515
Reclassification from Intangibles	–	32	32
Charge in year	1,725	2,476	4,201
Released on disposal	(25,992)	(938)	(26,930)
Revaluation – reserve movement	450	–	450
Gain on revaluation charged to OCS	(10)	(3,915)	(3,925)
At 31 March 2005	**3,432**	**5,911**	**9,343**
Net book value 1 April 2004	20,716	102,307	123,023
Net book value 31 March 2005	**9,295**	**98,707**	**108,002**

13.1 HMT tangible fixed assets

	Land & Buildings	Leasehold Improvement	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost/valuation							
At 1 April 2004	100,342	1,145	65	7,509	1,502	–	110,563
Reclassification from Intangibles	–	–	–	94	–	–	94
Transfers	–	–	–	(543)	–	543	–
Additions	–	–	75	1,775	–	1,197	3,047
Disposal	(14,158)	(374)	(19)	(582)	(106)	–	(15,239)
Revaluation – reserve movement	(945)	–	–	–	250	–	(695)
Gain/(Loss) on revaluation charged to OCS	7,211	40	–	(352)	–	(51)	6,848
At 31 March 2005	**92,450**	**811**	**121**	**7,901**	**1,646**	**1,689**	**104,618**
Accumulated depreciation							
At 1 April 2004	2,311	578	37	5,330	–	–	8,256
Reclassification from Intangibles	–	–	–	32	–	–	32
Charge in year	1,387	78	7	1,004	–	–	2,476
Released on disposal	–	(367)	(17)	(554)	–	–	(938)
(Gain)/Loss on revaluation charged to OCS	(3,698)	13	–	(230)	–	–	(3,915)
At 31 March 2005	**–**	**302**	**27**	**5,582**	**–**	**–**	**5,911**
Net book value 1 April 2004	98,031	567	28	2,179	1,502	–	102,307
Net book value 31 March 2005	**92,450**	**509**	**94**	**2,319**	**1,646**	**1,689**	**98,707**

13.2 HMT tangible fixed assets

Land and buildings

The contract

In August 2002 HM Treasury entered into a 35 year PFI contract with Exchequer Partnership (EP) in respect of the core Treasury's former headquarters building, Government Offices Great George Street ("GOGGS"). EP is a consortium consisting of Bovis Lend Lease Holdings Ltd, Chesterton International PLC and Stanhope PLC.

The building was divided into two parts: the west end, which is now known as 1 Horse Guards Road (1HGR), and the east end, now known as 100 Parliament Street. EP completed the refurbishment of 1HGR in July 2002. In exchange for the refurbishment and the ongoing provision of serviced office accommodation at 1 Horse Guards Road, the Treasury pay EP an annual unitary payment of £14.037m at 1999 prices for the 35 year term of the contract (subject to deductions for non-availability and under performance).

The east end of the building was in operational use by HM Treasury until vacated in August 2002. A similar agreement was then reached with HM Revenue and Customs (HMRC) for the refurbishment and subsequent provision of serviced office accommodation at the east end. Refurbishment work started in December 2002 and was completed in October 2004. HMRC moved in during November 2004, following which the east end land and building was sold to HMRC.

Valuation

1 HGR was valued as at 31 March 2005 by the Valuation Office Agency at a value of £92.45m, of which £69.34m was considered attributable to the building and £23.11m to the land. The land and building will be professionally re-valued at five yearly intervals (with interim desk top valuations) and the building is being depreciated over its estimated useful economic life (currently assessed as 50 years).

Creditor

The refurbished 1 Horse Guards Road building was capitalised as an addition to tangible fixed assets in July 2002, at the cost of refurbishment incurred by EP of £141m. A creditor was recognised at fair value of £141m, which is being paid off over the period of the contract, on an annuity basis. The creditor as at 31 March 2005 was calculated as follows:

	£000	
Creditor at 1 April 2003	145,840	
Uplift for inflation on future unitary payments	3,810	(charged to OCS)
Principal repaid during 2004-05	(1,183)	
Creditor at 31 March 2005	**148,467**	

	£000
Creditor payable within 12 months	1,308
Creditor payable in more than 12 months	147,159
	148,467

Unitary Payment

As explained above, the actual costs incurred by the Treasury are wrapped up in an annual unitary payment to EP of £14.037m at 1999 prices, increased by RPI. The unitary payment made during 2004-05 totalled £15.791m, made up as follows:

	£000
Interest charges	10,745
Services	3,863
Charged to operating costs statement	14,608
Repayment of principal on creditor	1,183
Total unitary payment	**15,791**

The unitary payment finances the cost of the refurbishment, maintenance, lifecycle replacement costs and ongoing services over the 35 year term. The contract requires that the building is maintained throughout the period of the contract in its condition as at the beginning of the contract at no additional cost to the Treasury. During the period of the contract EP bear the risks of latent defects, building maintenance requirements and the costs of replacing capital items e.g. plant.

Net book value of land & buildings

	Land		Building	
	1 Horse Guards Rd	100 Parliament Street	1 Horse Guards Rd	Total
	£000	£000	£000	£000
Net book value 1 April 2004	15,925	15,102	67,004	98,031
Net book value 31 March 2005	23,112	–	69,338	92,450

13.3 OGC tangible fixed assets

	Land and Buildings	Plant & Machinery	Furniture & Equipment	IT Equipment	Whitehall Systems	Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2004	8,437	212	607	1,268	37,451	47,975
Additions	764	577	443	363	–	2,147
Disposal	–	(21)	–	(54)	(38,069)	(38,144)
Revaluation – reserve movement	139	16	15	–	618	788
Loss on revaluation charged to OCS	–	–	–	(39)	–	(39)
At 31 March 2005	**9,340**	**784**	**1,065**	**1,538**	**–**	**12,727**
Accumulated depreciation						
At 1 April 2004	1,155	116	110	1,011	24,867	27,259
Charge in year	729	69	101	183	643	1,725
Released on disposal	–	(18)	–	(54)	(25,920)	(25,992)
Revaluation – reserve movement	32	3	5	–	410	450
(Gain)/Loss on revaluation charged to OCS	–	2	–	(12)	–	(10)
At 31 March 2005	**1,916**	**172**	**216**	**1,128**	**–**	**3,432**
Net book value 1 April 2004	7,282	96	497	257	12,584	20,716
Net book value 31 March 2005	**7,424**	**612**	**849**	**410**	**–**	**9,295**

Thistle Street, Edinburgh was valued in January 2003 on the basis of existing use value by independent surveyors, Gerald Eve, a member of RICS, in accordance with the RICS Appraisal and Valuation Manual. For 2004-05 the property has been revalued using the indices contained in PES (2005) 03 Updated Forecast Indices for Assets.

The Whitehall District Heating System and the Whitehall Standby Distribution System supply heating and emergency electricity to government departments in the Whitehall area. They were transferred to OGCbuying.solutions as at 31 December 2004. At the transfer date these assets had a net book value of £12.148m. In addition there were net other liabilities of £874k. OGCbuying.solutions paid £3m on transfer with the balance £8.274m deemed as a loan to be settled over six years with interest at 6.5%.

14. INTANGIBLE FIXED ASSETS – Software Licences

	OGC	HMT	Total
	£000	£000	£000
Cost/valuation			
At 1 April 2004	2,345	3,169	5,514
Reclassification to Tangibles: IT Equipment	–	(94)	(94)
Additions	1,252	1,214	2,466
Disposals	–	(206)	(206)
Loss on revaluation charged to OCS	(118)	(169)	(287)
At 31 March 2005	**3,479**	**3,914**	**7,393**
Accumulated depreciation			
At 1 April 2004	1,526	2,054	3,580
Reclassification to Tangibles: IT Equipment	–	(32)	(32)
Charge in year	408	623	1,031
Disposals	–	(206)	(206)
Gain on revaluation charged to OCS	(43)	(97)	(140)
At 31 March 2005	**1,891**	**2,342**	**4,233**
Net book value 1 April 2004	819	1,115	1,934
Net book value 31 March 2005	**1,588**	**1,572**	**3,160**

15. INVESTMENTS

15.1 Fixed Investments

The Department holds the following investments to facilitate delivering its aim and objectives.

	At 1 April 2004	Additions	Disposals	Revaluation – Reserve movement	Revaluation – OCS movement	At 31 March 2005
	£000	£000	£000	£000	£000	£000
OGC						
OGCbuying.solutions PDC	350	–	–	–	–	350
OGCbuying.solutions Loan	–	8,274	–	–	–	8,274
OGC Total	350	8,274	–	–	–	8,624
HMT						
Bank of England	1,560,000	–	–	37,867	–	1,597,867
Royal Mint	5,500	–	–	–	–	5,500
Partnerships UK Shares	3,926	–	–	182	530	4,638
Partnerships UK Loan Stock	15,594	–	–	–	–	15,594
HMT Total	1,585,020	–	–	38,049	530	1,623,599
Department total	**1,585,370**	**8,274**	**–**	**38,049**	**530**	**1,632,223**

15.1(a) OGC Buying Solutions

OGCbuying.solutions, originally known as The Buying Agency, was set up in 1991 as a Trading Fund under the Government Trading Fund Act 1973. It provides procurement services to other government bodies. OGC owns 100% of the issued Public Dividend Capital of OGCbuying.solutions. In accordance with the Resource Accounting Manual, OGC's investment is shown at its nominal value. A dividend of £1,225k is payable for the year ended 31 March 2005 (2004 £1,242k). The associated cost of capital is £1,225k (2004 £1,242k).

Extracts from the OGCbuying.solutions' accounts

For the year ended 31 March

	2005	2004
	£000	£000
Extracts from the profit and loss account		
Turnover	60,067	51,164
Operating surplus	1,350	3,031
Net interest receivable	297	352
Surplus for the year	**1,647**	**3,383**
Dividend to be surrendered to OGC	(1,225)	(1,242)
Retained surplus	**422**	**2,141**
Extracts from the balance sheet		
Fixed assets	12,535	710
Current assets	24,099	27,651
Liabilities due within one year	(10,840)	(10,069)
Liabilities due after more than one year	(7,377)	(1,725)
Net assets and shareholders funds	**18,417**	**16,567**

15.1(b) Bank of England

The Bank of England was set up as a body corporate under the Bank of England Act 1946 as the central bank of the United Kingdom. The Bank's two core purposes are to ensure monetary and financial stability. The Treasury wholly owns the capital stock in the Bank of England. The Bank is required to pay the Treasury in lieu of dividend a sum equal to 50% of the Bank's net profit for its previous financial year, or such other sum as the Treasury and the Bank may agree. A dividend of £37,867k (2004: £29,600k) is payable. The associated cost of capital is £94,736k (2004: £106,613k).

HM Treasury's investment in the Bank of England is valued at the Bank's audited net assets as at 28 February 2005. Extracts from the accounts of the Banking Department of the Bank of England for the year ended 28 February 2005 are shown in the table below; for further information, refer to the full Bank of England Report and Accounts, which can be viewed on the following website: www.bankofengland.co.uk.

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 28 February 2005 totalled £35.42 billion (2004: £36.02 billion). The notes are a liability of the Bank, which must be backed by an equivalent value of securities. Total securities held by the Issue Department at 28 February 2005 were £ 35.42 billion (2004: £36.02 billion), which included the Ways and Means Advance to the National Loans Fund of £13.37 billion (2004: £13.37 billion) and financial instruments issued by other banks.

The profit of the Issue Department for the year ended 28 February 2005 was £1.62 billion (2004: £1.23 billion). Each year's profit is paid over to the National Loans Fund. The profit represents the interest on the securities held by the Issue Department less the costs of production of bank notes and other expenses. The Issue Department's liabilities (bank notes in circulation) are interest free.

Extracts from the Banking Department's accounts

For the year ended 28 February

	2005	2004
	£ million	**£ million**
Extracts from the profit and loss account		
Profit before taxation	100	72
Payable to HM Treasury (see note 7)	(38)	(30)
Taxation	(24)	(12)
Retained profit for the year	**38**	**30**
Extracts from the balance sheet		
Assets		
Loans and advances to banks, the money market and customers	12,564	5,891
Debt securities	8,248	8,343
Other assets	1,330	1,279
Total assets	**22,142**	**15,513**
Liabilities		
Deposits by central banks, other banks and building societies	12,158	6,743
Debt securities in issue	5,914	5,739
Other liabilities	2,472	1,471
Total liabilities	**20,544**	**13,953**
Net assets and shareholders funds	**1,598**	**1,560**

15.1(c) Royal Mint

The Royal Mint was set up in 1975 as a Trading Fund under the Government Trading Fund Act 1973 and became an Agency in 1990. It manufactures and supplies coins, medals, seals and similar articles. The Treasury wholly owns the Public Dividend Capital of the Royal Mint. In accordance with the Resource Accounting Manual, HM Treasury's investment is shown at its nominal value. No dividend is payable for 2005 (2004: £750k). The associated cost of capital is £4,644k (2004: £3,052k).

Extracts from the Royal Mint's draft accounts (subject to final audit clearance)

For the year ended 31 March

	2005	2004
	£'000	**£'000**
Extracts from the profit and loss account		
Turnover	99,613	89,890
Operating profit/(loss) before exceptional costs	(1,957)	2,117
Net interest payable	(1,288)	(823)
Profit/(loss) for the year	**(3,245)**	**1,294**
Extracts from the balance sheet		
Fixed assets	39,921	39,733
Current assets	62,579	77,421
Liabilities due within one year	(42,936)	(54,070)
Liabilities due after more than one year	(11,215)	(13,036)
Net assets and shareholders funds	**48,349**	**50,048**

For further information, refer to the full Royal Mint Report and Accounts, which can be viewed on the following website: www.royalmint.com.

15.1(d) Partnerships UK

Partnerships UK plc (PUK) was established on 1 April 2000. Its purpose is to provide a permanent and sustainable centre of expertise to develop the Government's Public Private Partnership programme. Equity in PUK was partially sold during March 2001, with 51% of the shares being allocated to private investors, and 4.44% being allocated to the Scottish Executive. HMT retains an equity interest of 44.56% of the shares.

As at 31 March 2005, the equity interest has been revalued to the net asset value per share of £1.04 compared to the value of £0.88 per share as at 31 March 2004. No dividend was declared on the shares in 2004-05 or 2003-04. The associated cost of capital is £150k (2004: £144k).

The Treasury's holding of PUK Loan Stock is shown at nominal value. Interest at 4.8% (net), £749k (2004: £749k) is receivable on the loan stock. The associated cost of capital is £749k (2004: £749k).

Extracts from the PUK's accounts

For the year ended 31 March

	2005	2004
	£'000	**£'000**
Extracts from the profit and loss account		
Turnover: group and share of joint ventures	16,492	11,015
Profit on ordinary activities before taxation	452	47
Tax on profit of ordinary activities	(232)	(313)
Profit/(loss) for the year	**220**	**(266)**
Extracts from the balance sheet		
Fixed assets	9,676	4,574
Current assets	46,583	41,768
Creditors falling due within one year	(10,384)	(2,314)
Creditors falling due after more than one year	(35,467)	(35,217)
Net assets and shareholders funds	**10,408**	**8,811**

15.2 HMT Current Investments

	Residual Shares	Bonus Shares	Pool Shares Other Depts	Total
	£000	£000	£000	£000
At 1 April 2004	1,144	41	341	1,526
Revaluation – reserve movement	59	1	62	122
Revaluation – OCS movement	–	–	42	42
Impairment	–	–	(66)	(66)
Disposals	(1,203)	(42)	(379)	(1,624)
At 31 March 2005	–	–	–	–

HMT held residual shares from past privatisations as current assets. All have been sold during the year.

16. MOVEMENTS IN WORKING CAPITAL OTHER THAN CASH

	2004-05 OGC	2004-05 HMT	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
Increase/(decrease) in stock	(98)	94	(4)	87
Increase/(decrease) in debtors	(1,219)	9,273	8,054	(21,271)
(Increase) /decrease in creditors	(3,907)	(22,021)	(25,928)	164,533
Intra departmental consolidation adjustment	(270)	270	–	–
	(5,494)	**(12,384)**	**(17,878)**	**143,349**
Adjustment: movement in working capital not related to net operating costs				
Amounts due to the Consolidated Fund	2,345	17,537	19,882	(148,558)
Transfer of creditors to provisions	47	–	47	(1,593)
The movement in working capital other than cash used in the Cash Flow Statement	**(3,102)**	**5,153**	**2,051**	**(6,802)**
Amounts due from the Consolidated Fund	–	–	–	4,344
Increase in PFI creditor	–	1,183	1,183	1,189
Amount receivable – that will be due to the Consolidated Fund	(3,665)	(38,507)	(42,172)	11,814
Prior year amount received – paid over to the Consolidated Fund	3,242	32,309	35,551	–
Intra departmental consolidation adjustment	232	(232)	–	–
The movements in working capital used in the Reconciliation of resource to cash requirement	**(3,293)**	**(94)**	**(3,387)**	**10,545**

17. OGC SURPLUS FREEHOLD PROPERTY

	£000
At 1 April 2004	4,496
Revaluation	8,504
At 31 March 2005	**13,000**

The portfolio, comprises two properties. One has been revalued at market prices, based on an offer received, discounting the expected cash flows until completion. The other is expected to incur costs at disposal so is recorded at zero value. Negotiations are progressing towards final disposal of both properties during 2005-06.

18. STOCKS

	2004-05 OGC	2004-05 HMT	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
Coinage scrap metal (Non-cash)	–	287	287	193
Fuel Oil	–	–	–	98
Total	**–**	**287**	**287**	**291**

19. DEBTORS

	OGC	2004-05 HMT	Total	2003-04 Total
	£000	£000	£000	£000
Amounts falling due within one year				
Other taxation and social security	484	1,527	2,011	2,194
Trade debtors	1,873	2,672	4,545	4,019
Deposits and advances	20	356	376	679
Other debtors	107	152	259	1,863
Prepayments and accrued income	3,552	40,371	43,923	37,645
Overpayment recoverable from Consolidated Fund	–	–	–	–
Prefunding for premature retirements	73	33	106	218
Supply Debtor	–	3,709	3,709	–
	6,109	**48,820**	**54,929**	**46,618**
Amounts falling due after more than one year				
Other debtors	229	6,376	6,605	6,756
Prefunding for premature retirements	31	31	62	168
	260	**6,407**	**6,667**	**6,924**
Total	**6,369**	**55,227**	**61,596**	**53,542**

Included within debtors and stock is £48,897k (2003-04: £42,280k) that will be due to the Consolidated Fund once the debts are collected.

20. CASH AT BANK AND IN HAND

	OGC	2004-05 HMT	Total	2003-04 Total
	£000	£000	£000	£000
Balance at 1 April	6,006	12,210	18,216	102,482
Net cash inflow/(outflow)	1,921	8,665	10,586	(84,266)
Balance at 31 March	**7,927**	**20,875**	**28,802**	**18,216**

HM Paymaster General provides a current account banking service, whilst some deposits are held at the Bank of England. The following balances were held at 31 March 2004:

	OGC	2004-05 HMT	Total	2003-04 Total
	£000	£000	£000	£000
Office of HM Paymaster General	7,927	20,503	28,430	17,603
Bank of England	–	371	371	612
Cash in hand	–	1	1	1
Balance at 31 March	**7,927**	**20,875**	**28,802**	**18,216**

	OGC	2004-05 HMT	Total	2003-04 Total
	£000	£000	£000	£000
Amounts issued from the Consolidated Fund for Supply but not spent at year end/(Supply Debtor)	7,916	(3,709)	4,207	8,707
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	11	24,584	24,595	9,303
Other amounts due to be paid to the Consolidated Fund	–	–	–	206
Balance at 31 March	**7,927**	**20,875**	**28,802**	**18,216**

21. CREDITORS

	2004-05 OGC	2004-05 HMT	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
Amounts falling due within one year				
Other taxation and social security	675	2,055	2,730	545
PFI contract-principal repayable	–	1,309	1,309	1,183
Trade creditors	–	2,488	2,488	4,331
Other creditors	49	1,184	1,233	3,628
Accruals and deferred income	6,395	10,449	16,844	12,403
Amounts due to the Consolidated Fund	11,592	69,816	81,408	60,496
Total	**18,711**	**87,301**	**106,012**	**82,586**

The total due to the Consolidated Fund comprises

	2004-05 OGC	2004-05 HMT	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
Amounts issued from the Consolidated Fund for Supply but not spent at year end	7,916	–	7,916	8,707
Consolidated Fund extra receipts received	11	24,584	24,595	9,303
Consolidated Fund extra receipts receivable	3,665	45,232	48,897	42,280
Other amounts due to be paid to the Consolidated Fund	–	–	–	206
Total	**11,592**	**69,816**	**81,408**	**60,496**

The amount due for Consolidated Fund extra receipts receivable includes £6,357k in relation to amounts not expected to be received for more than one year.

Amounts falling due after more than one year

	2004-05 OGC	2004-05 HMT	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
PFI contract (note 13.2)	–	147,159	147,159	144,657
Bond from sub-tenants	–	268	268	268
Total	**–**	**147,427**	**147,427**	**144,925**

22. PROVISIONS FOR LIABILITIES AND CHARGES

	Surplus leasehold property	Specific dilapidations and legal costs	Early departure & pension commit-ments	Total
	£000	£000	£000	£000
OGC				
Balance at 1 April 2004	20,489	425	2,959	23,873
Provision utilised in year	(8,394)	–	(850)	(9,244)
Transfer to creditors	–	(47)	–	(47)
Transfer from/(to) operating cost statement	(3,760)	8	358	(3,394)
Unwinding of discount	678	–	73	751
At 31 March 2005	**9,013**	**386**	**2,540**	**11,939**
HMT				
Balance at 1 April 2004			4,372	4,372
Provision utilised in year			(2,439)	(2,439)
Transfer from operating cost statement			2,160	2,160
Unwinding of discount			79	79
At 31 March 2005			**4,172**	**4,172**
Department total at 31 March 2005	**9,013**	**386**	**6,712**	**16,111**

Maturity analysis of provisions: amounts estimated to fall due

	OGC	HMT	Total
	£000	£000	£000
Within one year	1,762	1,904	3,666
Between one and two years	2,193	781	2,974
Between two and five years	4,299	1,305	5,604
After five years	3,685	182	3,867
	11,939	**4,172**	**16,111**

Surplus leasehold property

The surplus leasehold property provision includes the net present value of future lease payments on vacant property, together with estimates of any dilapidations due at the lease end.

Specific dilapidations and legal costs

Dilapidations may arise on properties where the lease has expired and which, as they can be disputed, may not be settled until some time after the expiry date. The provision includes amounts to cover expected legal and associated costs, including disputes over the disposal of vacant estate property.

Early departure & pension commitments

See statement of accounting policies – note 1.14.

23. REVALUATION RESERVE

	OGC	HMT investments	HMT tangible assets	Total
	£000	£000	£000	£000
Balance at 1 April 2004	**5,656**	**271,203**	**3,122**	**279,981**
Arising on revaluation during the year (net)				
Tangible assets and investments	338	38,170	(695)	37,813
Surplus property	8,505	–	–	8,505
Leasehold adjustment	–	–	7	7
Transfer (to)/from General Fund in respect of realised element of revaluation reserve				
Tangible assets and investments	(1,784)	(324)	(780)	(2,888)
Balance at 31 March 2005	**12,715**	**309,049**	**1,654**	**323,418**

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets). The donated asset reserve is not material.

24. RECONCILIATION OF NET OPERATING COST TO CHANGES IN GENERAL FUND

		2004-05		**2003-04** (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(31,093)	(182,826)	(213,919)	(266,378)
Income not appropriated in aid payable to the Consolidated Fund	(4,640)	(63,698)	(68,338)	(44,227)
Non-operating income not classified as A in A	(620)	(24,118)	(24,738)	–
	(36,353)	(270,642)	(306,995)	(310,605)
Parliamentary Funding drawn down	42,760	143,728	186,488	187,021
Parliamentary Funding brought forward	5,250	3,457	8,707	9,161
Transitional adjustment re: implementation of resource-based supply	–	–	–	97
Other amounts due to the Consolidated Fund	–	–	–	(206)
Transfer to General Fund of realised element of revaluation reserve (note 23)	1,784	1,104	2,888	110
Consolidated Fund creditor for cash unspent	(7,916)	–	(7,916)	(8,707)
Consolidated Fund debtor for cash not drawn	–	3,709	3,709	–
Non-cash items				
Notional audit fee	40	91	131	131
Cost of capital	1,863	97,366	99,229	109,425
Bank of England services	–	15,200	15,200	11,663
Intra departmental consolidation adjustments	270	(270)	–	–
Transfer to Cabinet Office in respect of Honours and Dignities	–	–	–	(1,008)
Transfer from HMRC in respect of O'Donnell Review	–	–	–	8,380
Net increase/(decrease) in General Fund	**7,698**	**(6,257)**	**1,441**	**5,462**
General Fund at 1 April	(4,260)	1,256,921	1,252,661	1,247,199
General Fund at 31 March (Schedule 3)	**3,438**	**1,250,664**	**1,254,102**	**1,252,661**

25. NOTES TO SCHEDULE 5

Programme grants and other current gross expenditure have been allocated as follows:

	Programme grants and other current gross expenditure		Capital employed	
Objectives:	**2004-05**	**2003-04**	**2004-05**	**2003-04**
	£000	£000	£000	£000
(1) Maintaining a stable macroeconomic framework with low inflation;	88,166	91,965	814,569	788,717
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;	14,704	12,991	(3,410)	(413)
(3) Promoting 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;	1,510	117	(10,177)	(7,808)
(4) Increasing the productivity of the economy;	132	–	(6,749)	(5,992)
(5) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	47,424	54,530	819,046	797,675
(6) Expanding economic and employment opportunities for all;	–	–	(2,848)	(1,506)
(7) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	242	390	(7,910)	(5,035)
(8) Improving the quality and cost effectiveness of public services;	3,297	8,301	20,117	6,721
(9) Achieving a high standard of regularity, propriety and accountability in public finance;	–	–	(6,563)	(7,727)
(10) Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;	–	–	(1,414)	(685)
(11) Other resources required not falling under HM Treasury's ten main objectives.	5,740	6,733	(37,141)	(31,305)
Operating costs/net assets	**161,215**	**175,027**	**1,577,520**	**1,532,642**

Programme grants and other gross expenditure

The main items underlying the above analysis are the cost of capital charge in respect of the Treasury's investment in the Bank of England (objectives 1 and 5); the cost of coinage (objective 1); non-Voted expenditure on Bank of England services (objectives 1 and 2); and spending by OGC (objective 8).

Capital employed

Where assets or liabilities relate to specific objectives they are attributed directly. For example, the £1.6 billion investment in the Bank of England and the £37.9m dividend receivable from the Bank are attributed to objectives 1 and 5, and the £20.2m investment in Partnerships UK is attributed to objective 8. The Department's administrative net liabilities are attributed to objectives in proportion to the expenditure on those objectives recorded on Schedule 5.

26. CAPITAL COMMITMENTS

HMT have contracted capital commitments of £419k (2004: Nil). OGC have contracted capital commitments of £2,126k (2004: £392k) and approved but not contracted capital commitments of £1,319k at 31 March 2005 (2004: £1,547k) for which no provision has been made.

27. OPERATING LEASES AND THE SERVICE ELEMENT OF ON-BALANCE SHEET PFI CONTRACTS

Commitments

At 31 March 2005 the Department was committed to making the following payments during the next year in respect of operating leases and the service element of the on-balance sheet PFI contract:

	2004-05 Land & buildings	2004-05 Other	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
Lease expires:				
Within one year	–	640	640	11
Between two and five years	962	40	1,002	1,465
Between five and ten years	2,838	–	2,838	3,588
Between ten and fifteen years	107	–	107	–
Between fifteen and twenty years	1,116	–	1,116	–
Between thirty and thirty five years	3,986	–	3,986	3,863
	9,009	**680**	**9,689**	**8,927**

	2004-05 OGC	2004-05 HMT	2004-05 Total	2003-04 Total
	£000	£000	£000	£000
Lease expires:				
Within one year	12	628	640	11
Between two and five years	990	12	1,002	1,465
Between five and ten years	2,838	–	2,838	3,588
Between ten and fifteen years	107	–	107	–
Between fifteen and twenty years	–	1,116	1,116	–
Between thirty and thirty five years	–	3,986	3,986	3,863
	3,947	**5,742**	**9,689**	**8,927**

28. OTHER COMMITMENTS

The Treasury has committed to pay the Royal Mint for the costs of manufacturing circulation coinage. Monthly payments are made for coins issued, on the basis of a price agreed in a Service Level Agreement, which is subject to an annual efficiency adjustment equivalent to the annual change in RPI minus 2%. The price was agreed on the basis of a standard mix of denominations, and so is converted into a price per factored unit, to reduce the risk to the Mint and the Treasury of demand for each denomination changing. The costs charged to the Treasury are based on the price per factored units. For the year 2004-05 the Treasury purchased 1,390 million coins, translating to charges for 1,709 million factored units at a cost of £13,693,000.

Number of coins	Price per million coins (£)	Factored Units (millions)	Price per factor (£)	Commitment based on the purchase of 1,709m factored units (£000)
0 to 1,400,000,000	10,397	0 to 1,817	8,103	13,693
1,400,000,001 to 1,800,000,000	7,100	1,818 to 2,336	5,472	–
Over 1,800,000,000	6,087	Over 2,336	4,691	–

Excluding VAT

In addition the Royal Mint charges the Treasury for metal and freight costs, which totalled approximately £11.23m in 2004-05.

29. CONTINGENT ASSETS & LIABILITIES

29.1 Contingent assets & liabilities disclosed under FRS 12

	2005	2004
	£000	£000
Contingent assets		
At the balance sheet date OGC has no contingent assets or liabilities. The amount outstanding in 2003-04 (£2.65m) was recovered in full during the year. Claims against OGC for dilapidations on expired leases and associated costs are considered to be adequately covered in the specific dilapidations and legal costs provision (see Note 22).	Nil	2,650
A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of HMS Sussex, which sank in the Western Mediterranean in 1694 carrying gold and sliver coins estimated to be valued at the time at £1million. If confirmed as HMS Sussex the wreck and its contents are legally the property of Her Majesty's Government.	Not known	Not known
A licensing agreement was signed on 27 September 2002 between the Disposal Services Agency of the Ministry of Defence, on behalf of HM Government, and Odyssey for further archaeological exploration of the wreck of HMS Sussex and recovery of artefacts etc. Under the agreement the net proceeds of the sale of coins and other marketable artefacts will be shared between the two parties. Insufficient certainty exists at present as to the presence or value of any potential recovery of artefacts to quantify the contingent asset.		
Bequest to the nation by Harold William Frost of the residue of his estate. As yet not all conditions set by the executors of the estate have been met.	600	–
The Barlow Clowes group of companies collapsed in 1988, and the Treasury subsequently paid compensation to investors. The receivers and liquidators of the Barlow Clowes companies (the Officeholders) brought proceedings in the Isle of Man against the two Directors of the International Trust Corporation (IoM) Ltd (and the company itself). Judgement was given against the defendants on 11 February 2002 for an amount subsequently calculated to be £8,435,953.41. The defendants appealed to the Staff of Government Division in the IoM Court. The judgement on appeal was that one of the Directors, and the company, remain liable for £10,983,790.96 plus £926.96 daily interest from the date of judgement (11 February 2002), the liability having been recalculated. It is now out of time for an appeal by this Director and the company so this judgement now stands.	Unquantifiable	9,924
However, the appeal of one of the Directors was successful. Leave to Appeal to the Privy Council against this decision was sought by the Officeholders and subsequently granted and the hearing is expected to be held in July 2005. If the Officeholders' appeal is successful, it is likely the Director will still be jointly and severally liable for £10.984 million. Recognising that full recovery may not be successful it is not possible to quantify the value of the contingent asset. Until the outcome of the Appeal to the Privy Council is known, no steps have been taken to recognise these sums in the financial statements, as there is no certainty of recovery.		
Contingent Liabilities		
Arrangements to provide reinsurance facilities for certain terrorist attacks against industrial and commercial property in Great Britain. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.	Unquantifiable	Unquantifiable
HMT have indemnified the liquidators and receivers (officeholders) of Barlow Clowes for any costs above the amounts recovered. An appeal is outstanding. Legal advice indicates that the original judgement in HMT's favour is likely to be upheld.	Unquantifiable	Nil

29.2 Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability

	2005	2004
	£000	£000
Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the IBRC passed to the Treasury. The Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity.	Unquantifiable	Unquantifiable
Treasury Minute of 24 March 2005: Bequest to the Nation: Harold William Frost Deceased Indemnity on the bequest to the nation by Harold William Frost against further claims made against the Estate of Harold William Frost or against Mr Robin Brammall, in his capacity as Executor and Trustee of the Estate, including any costs and expenses, legal or otherwise, incurred in disputing such claims, limited to the value of the residue of the Estate.	600	–

30. LOSSES AND SPECIAL PAYMENTS

HMT administration costs include £57k arising from 15 claims waived or abandoned.

OGC administration costs include £64k arising from 10 claims waived or abandoned.

31. RELATED PARTY TRANSACTIONS

The Department in its role as custodian of the Consolidated Fund has transactions with other government departments and central government bodies but those transactions are outside the scope of the resource accounts and are disclosed instead in the Consolidated Fund statements.

OGC

The Office of Government Commerce (OGC) is an office of HM Treasury and sponsors OGCbuying.solutions (note 15.1(a)), which is a trading fund. These bodies are regarded as related parties with which OGC has had various material transactions during the year.

In addition OGC has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, Department for Environment, Food & Rural Affairs, Department of Health, Department for Transport, Local Government & the Regions, Foreign & Commonwealth Office, Home Office, Ministry of Defence, and their agencies.

Neither the Chief Executive, Executive Directors nor any of the key managers or other related parties has undertaken any material transactions with OGC during the year.

Sir Peter Gershon was Chief Executive of OGC to 31.3.04. and currently serves as a non-executive director on the Treasury Board. From 1.4.04. to 12.7.04. he led a cross-Whitehall Efficiency Review, earning £64k, the same salary as he earned at the OGC. Sir Peter Gershon left the public sector on the publication of the Efficiency Review. On leaving the public sector Sir Peter Gershon had an arrangement whereby, in the event that the Prime Minister, on the advice of the Business Appointments Committee, decided that he should serve waiting time before taking up new appointments outside the Government, he would continue to receive his final salary on a retainer basis for a further nine months, with a claw back should his total earnings for 2004-05 exceed what they would have been had he remained at the OGC. Equally, under the same arrangement, it was agreed that Sir Peter would pay back any excess earnings he received.

The OGC continued to pay Sir Peter Gershon's salary from 13.7.04. until 31.12.04. After taking up 2 new positions in the private sector Sir Peter Gershon repaid this additional salary to the OGC at the end of February 2005 under the claw back arrangement. The Treasury has not been called upon to refund any monies as part of that arrangement.

Core Treasury

HMT has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, the Treasury Solicitors and the National Loans Fund.

Although the Bank of England (see Note 15.1(b)) and Royal Mint (see Note 15.1(c)) fall outside the resource accounting boundary, their share capital is wholly owned by the Treasury. Payments to these bodies for services provided and the dividend payments received are material and in the operating cost statement.

James Sassoon is a Managing Director of core Treasury. The Treasury has a 44.56% shareholding in Partnerships UK plc, (see Note 15.1(d)), a public private partnership with a majority private sector shareholding. James Sassoon is a director of PUK, for which he receives no remuneration. PUK receives payment on a commercial basis for work done for the Treasury and other Government departments. It does not receive any grant in aid from HM Treasury.

DMO

The Debt Management Office (DMO) is an executive agency of HM Treasury. DMO has undertaken various transactions with the Bank of England, and National Savings & Investments.

None of the DMO Managing Committee members, senior managers or other related parties has undertaken any material transactions with the DMO during the year.

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32. FINANCIAL INSTRUMENTS

Risk management objectives and policies

Financial Reporting Standard 13: Derivatives and Other Financial Instruments requires disclosure of the objectives and policies of an entity in holding financial instruments, and the role financial instruments have had during the period in creating or changing the risks the entity faces in undertaking its activities. As permitted by FRS 13, debtors and creditors, which mature or become payable within 12 months from the balance sheet date have been omitted from these disclosures.

Because of the largely non-trading nature of its activities and the way Government departments are financed, the department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. HM Treasury's resource accounts include the resources engaged in managing the Government's overall finances, but not the substantive transactions managed. These are accounted for separately – for instance in:

- Consolidated Fund and National Loans Fund Accounts and Supplementary Statements;
- the Contingencies Fund Accounts;
- the Debt Management Account;
- the Exchange Equalisation Account.

Liquidity risk

The department's net revenue resource requirements are financed by resources voted annually by Parliament, as largely is its capital expenditure. It is not, therefore, exposed to significant liquidity risks, and the department has no need to maintain commercial borrowing facilities.

Interest rate risk

The department has no material financial assets or financial liabilities carrying variable rates of interest and it is not therefore exposed to significant interest rate risk.

Currency risk

The department does not conduct any material business denominated in foreign currency. With the exception of indirect exposure to foreign currency holdings via its investment in the Bank of England, the Treasury holds no material financial assets or liabilities denominated in foreign currency, and therefore undertakes no significant active management of currency risk.

Credit risk

Long term debtors are fully recoverable and therefore there is no material credit risk.

Financial liabilities

All of HM Treasury's financial liabilities are interest free, and mature within one year or less, or on demand, except for the PFI creditor described in notes 13.2 and 21, and certain provisions described in note 22. The fixed interest rate implicit in the PFI creditor is 7%; it is paid off in instalments over the period to 2037. The Early Retirement Provision and the Surplus Leasehold Property Provision have been discounted for the time value of money and therefore are treated as carrying interest at a fixed rate of 3.5%. The Specific Dilapidations and Legal Costs provisions have not been discounted and therefore are treated as interest free. All material financial liabilities are carried at their fair value, and are denominated in sterling.

Financial assets

The department's financial assets comprise its investments as set out in note 15, long term debtors as set out in note 19 and cash at bank and in hand as set out in note 20. All financial assets are non-interest bearing, except for the Partnerships UK Loan Stock, which pays a nominal rate of interest of 6%. Cash at bank and in hand is available on demand. The fixed asset investments are held for an unlimited term. Long term debtors are expected to be realised in 2 to 3 years. All material financial assets are denominated in sterling.

Fair value of financial assets

All material financial assets are carried at their fair value, except as follows:

	Carrying value 31 March 2005	Estimated fair value 31 March 2005
	£000	£000
Public Dividend Capital in Royal Mint (note 15.1(c))	5,500	48,349
Public Dividend Capital in OGCbuying.solutions	350	18,417
Partnerships UK Loan Stock (note 15.1(d))	15,594	11,618 to 18,245

Public Dividend Capital in the Royal Mint and OGCbuying.solutions is carried at historical cost in accordance with the RAM. The net asset value from the latest accounts is treated as fair value. The investment in Partnerships UK Loan Stock is carried at historical cost in the absence of a reliable market value. The estimated range of fair values for the purpose of this disclosure has been derived from the nominal value of £15.594 million and the coupon interest rate of 6% at a range of yields from 5.0% to 7.5%. A yield of 5.0% implies a fair value of £18.245m, while a yield of 7.5% implies a fair value of £11.618m.

33. INTRA-GOVERNMENT BALANCES

	Debtors: amounts falling due within one year	Debtors: amounts falling due after one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after one year
	£000	£000	£000	£000
Balances with other central government bodies	9,960	31	87,608	–
Balances with local authorities	114	–	–	–
Balances with NHS Trusts	25	–	–	–
Balances with public corporations and trading funds	962	–	268	–
Balances with bodies external to government	43,868	6,636	18,136	147,427
At 31 March 2005	**54,929**	**6,667**	**106,012**	**147,427**
Balances with other central government bodies	6,756	64	63,940	–
Balances with local authorities	65	–	–	–
Balances with NHS Trusts	21	–	–	–
Balances with public corporations and trading funds	880	–	328	–
Balances with bodies external to government	38,896	6,860	18,318	144,925
At 31 March 2004	**46,618**	**6,924**	**82,586**	**144,925**

34. POST BALANCE SHEET EVENTS

There are no reportable post balance sheet events.

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