Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6.

HM Treasury

Resource Accounts 2007-08

LONDON: The Stationery Office
HC 539

16 July 2008
£12.85

Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6.

HM Treasury

Resource Accounts 2007-08

(For the year ended 31 March 2008)

Ordered by the House of Commons to be printed 16 July 2008

LONDON: The Stationery Office 16 July 2008
HC 539 £12.85

CONTENTS

ISBN 978 0 10 295752 5

MANAGEMENT COMMENTARY

Scope of these accounts

1. The 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. They present the operating costs and financial position of HM Treasury group ("HM Treasury" or "the Group").

2. The Report and Accounts present the consolidated results for the financial year 2007-08 of the following three principal entities: the core Treasury, the Debt Management Office (DMO) and the Office of Government Commerce (OGC). Most of the analysis in these accounts include separate figures for the core Treasury. Figures for the DMO alone are reported in its separately published accounts, which can be viewed at http://www.dmo.gov.uk. The Royal Mint (http://www.royalmint.com) and OGCbuying solutions (http://www.ogcbuyingsolutions.gov.uk) are Trading Funds of the core Treasury and the OGC respectively, and as such publish their own accounts. These are not consolidated into these accounts, but are shown as investments.

3. 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 HM 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.

4. HM Treasury has eight objectives, set under the 2004 Spending Review (SR2004). These are listed below, and can be broadly categorised under four main headings:

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

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

- Raising Trend Growth
  Objective II (part 1): Increase the productivity of the economy and expand economic and employment opportunities for all.

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

- Promoting Fairness and Opportunity for all
  Objective II (part 2): Increase the productivity of the economy and expand economic and employment opportunities for all.

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

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

- Delivering High Quality Public Services
  Objective VI: Improve the quality and cost effectiveness of the public services.

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

Contributions to performance against these objectives are made from across the Group, including DMO (Objective I) and OGC (Objective VI).

5. These 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. The Treasury was set PSA targets under the 2004 Spending Review. Performance against HM Treasury's PSAs is reported in the Annual Report and the Autumn Performance Report. The latest Annual Report was published on 3 July 2008.

Efficiency

6. As part of the 2004 Spending Review, the Treasury Group agreed a target to achieve annual efficiency savings of £18.7 million by 2007-08[1]. The plans for achieving efficiencies, the basis of measurement and the controls in place to maintain service quality are described in detail in the Efficiency Technical Note[2]. To support the delivery of its efficiency plans, the Treasury Group also had a target to reduce its headcount by 150 full-time equivalent staff by 31 March 2008, from the 31 March 2004 baseline. As set out in the Treasury Group's Annual Report (Annex A), as at 30 September 2007, all financial targets had either been achieved or exceeded and the headcount targets had also been exceeded.

7. The Comprehensive Spending Review 2007 (CSR07) settlement for the Group was announced in the Budget in March 2006. Building on the 2004 spending review efficiency programme, the Group's Departmental Expenditure Limit will fall by 5 per cent in real terms per year in 2008-09, 2009-10 and 2010-11, with access to a modernisation fund to help meet the transitional costs of any changes necessary to implement the settlement. As part of the Treasury's response to the 2007 Comprehensive Spending Review a series of zero based reviews have been undertaken, covering at least 75 per cent of the activity of the Treasury. The outcome of these zero based reviews will influence the distribution of resources and prioritisation of work going forward.

The Core Treasury

Activities

8. The core Treasury's main activities are:

- 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
- 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.

Much of this work is undertaken in partnership with other bodies. A description of arms length bodies is included in the Statement of Treasury Group Compliance with Corporate Government Code of Good Practice (page 14).

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

- 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 2007-08

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

- in the Annual Report (http://www.hm-treasury.gov.uk/media/B/D/hmt_annual_report030708.pdf) and the Autumn Performance Report;
- in the Economic and Fiscal Strategy Report and Financial Statement and Budget Report (March 2008); and
- on the Treasury website (www.hm-treasury.gov.uk).

[1] Originally £17.7 million, raised to £18.7 million following OGCbuying.solutions increasing their contribution from £0.8 million to £1.8 million by 2007-08.

[2] A revised Efficiency Technical Note was published in December 2006, and is available from http://www.hm-treasury.gov.uk/media/C/1/hmt_efficiencytechnicalnote_141206.pdf

11. 2007-08 has been a challenging, but relatively successful year for the core Treasury. Of its 10 PSA targets for SR2004, one has been met early, one is partly ahead of expectations and five are fully on course to be met over the period defined by the target. The main achievements in the delivery of the Treasury's objectives in 2007-08 have been as follows:

- due to resilience and stability brought about in the UK by the Government's macroeconomic framework, along with the open and flexible labour, product and capital markets, the Government is still meeting its strict fiscal rules despite the world economy having faced significant challenges, during 2007-08, due to the disruption in the global financial markets;
- financial services contribute significantly to UK GDP, employment and productivity both directly and as an essential enabler for other business, helping to underpin economic growth and prosperity for all and enabling the UK to take a key role in a global economy. However, failure of financial markets can also pose risks to economic stability and welfare and turbulence of financial markets has been a critical part of the work since summer 2007. The Treasury has:
    - taken action in relation to Northern Rock plc. This included authorising support for Northern Rock in September 2007, and subsequently taking Northern Rock into temporary public ownership in February 2008 (see note 29 of the accounts for more details);
    - worked closely with the Bank of England and the Financial Services Authority in monitoring and taking steps to deal with continuing market turbulence. This includes the launch of an independent review in Budget 2008, to be headed by Sir James Crosby, supported by the Treasury, into aspects of the mortgage securitisation market;
    - worked closely with international counterparts, including in the EU, the G7 and the Financial Stability Forum, to agree regulatory and other actions to address weaknesses in the international arrangements for regulating financial firms and markets; and
    - proposed major reforms to the UK's arrangements for dealing with banks and building societies facing difficulties, with a discussion paper published in October 2007 and an extensive consultation paper published in January 2008 (see note 33.2). The Treasury has consulted widely, through a series of workshops and direct discussions with a range of financial institutions and other interested organizations; and
- the Treasury continued to take forward the financial management agenda, with a commitment to deliver improvements in three key areas: corporate structures and governance in departments; people skills for both finance and non-finance professionals; and data processes and management information. In particular, during 2007-08, the Treasury highlighted the need for departments to focus on performance management alongside the control of expenditure and sought a more active engagement with the wider public sector to share best practice in performance and financial management.

12. The Prime Minister's Delivery Unit (PMDU) transferred to HM Treasury from the Cabinet Office, with 33 full-time equivalent posts, with effect from June 2007.

Reviews commissioned by HMT

13. During the year the Chancellor of the Exchequer and other ministers commissioned the following reviews:

Cave Review of Competition and Innovation in Water Markets (http://www.defra.gov.uk/environment/water/industry/cavereview/)

Crosby Review of Challenges and Opportunities in Identity Assurance (http://www.hm-treasury.gov.uk/independent_reviews/identity_management/identity_management_index.cfm

Thoresen Review of Generic Financial Advice (http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm)

King Review of Low-Carbon Cars (http://www.hm-treasury.gov.uk/independent_reviews/king_review/king_review_index.cfm)

Varney Review of the Competitiveness of Northern Ireland (http://www.hm-treasury.gov.uk/independent_reviews/varney_review/varney_competitiveness_index.cfm)

Varney Review of Tax Policy in Northern Ireland (http://www.hm-treasury.gov.uk/independent_reviews/varney_review/varney_review_index.cfm)

Poynter Review of the Loss of Confidential Child Benefit Data (http://www.hm-treasury.gov.uk/independent_reviews/poynter_review/poynter_review_index.cfm)

Sainsbury Review of Science and Innovation (http://www.hm-treasury.gov.uk/independent_reviews/sainsbury_review/sainsbury_index.cfm)

Davies Review of Issuer Liability (http://www.hm-treasury.gov.uk/independent_reviews/davies_review/davies_review_index.cfm)

Events since 31 March 2008

14. There have been no changes in departmental Ministers or Group senior staff since 31 March 2008. However, there have been further developments in relation to Barlow Clowes, the Bank of England, Equitable Life and Northern Rock, the more detailed financial implications of which can be found in the notes to the accounts (note 33).

The Future

15. The measures announced in the Budget 2008 feature in the plans for the future:

- Further implementation of the Leitch and Sainsbury Reviews to build on improvements in the UK skills base, with an additional £60 million in funding for adult training, and to provide a world-class science base and innovation framework, with a renewed focus on supporting innovation across all sectors of the economy;
- Action to make better use of transport infrastructure, such as through measures to reduce delays for travellers at Heathrow and an invitation to the private sector to run a number of projects to test road pricing, on top of the major programme of investment announced in the 2007 Comprehensive Spending Review;
- Package of tax simplification and implementation of the business tax reforms announced in Budget 2007 to encourage investment and innovation, as well as a confirmation of the commitment to reduce the administrative cost of regulation to business;
- An independent review of competition in the water sector, as well as progress on business support simplification and measures to ensure better access to Government procurement for small firms to improve competition and market frameworks; and
- A study of public service markets and a new framework for infrastructure procurement to improve public sector productivity.

Debt Management Office

Activities

16. 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 I.

17. The operations of the Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) are integrated with the DMO, while each retains its separate legal entity. 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 2007-08

18. The DMO has delivered substantially all of its 2007-08 key objectives and details of these will be published in due course with the DMO's Reports and Accounts for 2007-08 in July 2008.

19. Additionally, the DMO successfully met both of its centrally directed remits for debt and cash management. The DMO's outturn from gilt sales amounted to £58.5 billion (cash), raised through 34 auctions, in 2007-08, and the DMO continues to measure and monitor the performance of Exchequer cash management against a series of quantitative and qualitative indicators.

Events since 31 March 2008

20. There have been no significant or unexpected events since 31 March 2008.

The Future

21. In 2008-09, the DMO intends to build and develop further its core functions and activities with the aim of continuing to deliver an excellent, cost-effective service to government at the lowest risk. Specific areas of activity include the following:

- to continue to deliver to the highest standards the core objectives as set out above, in support of HM Treasury's SR2007 Departmental Strategic Objective 1(e) – Maintaining Sound Public Finances: Managing government cash, debt and reserves efficiently and effectively;
- to work with HM Treasury, Department for Environment, Food and Rural Affairs (Defra) and other stakeholders to develop a suitable framework to auction allowances arising from the Emissions Trading Scheme;
- to expand further the products and instruments it can use to transact for cash management purposes; and
- to complete the implementation of upgraded trade and position management technology to facilitate the streamlining of processes and to enhance business resilience and efficiency.

Office of Government Commerce

Activities

22. Since its creation in 2000, the 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 was extended to the whole of the public sector.

23. 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 2007-08

24. The OGC is directly responsible for PSA 10 which is to deliver a further £3 billion saving by 2007-08 in central civil government procurement. The Treasury reported in its 2007 Autumn Performance Report (APR) that this target had been met early – updated figures for end March 2008 show that £4.2 billion of savings have been made, and continue to be made, across central government.

25. The OGC has also published the first three Procurement Capability Review (PCR) reports for the Department for Education and Skills (DfES) now known as the Department for Children, Schools and Families – (DCSF), the Department for Communities and Local Government (CLG), and the Department for Work and Pensions (DWP), along with an overview report on key emerging themes. OGC Procurement Transformation Managers are working closely with reviewed departments to enable them to deliver and measure the change/benefits required as a result of the PCR reviews.

Further information can be found in:

- the HM Treasury Annual Report http://www.hm-treasury.gov.uk/media/B/D/hmt_annual_report030708.pdf; and
- the OGC website (http://www.ogc.gov.uk).

Events since 31 March 2008

26. There have been no significant or unexpected events since 31 March 2008.

The Future

27. Following the publication of Transforming Government Procurement and the subsequent development of a three-year strategy, OGC will work with central departments and other central government organisations to:

- Deliver value for money from third party spend;
- Deliver projects to time, quality and cost; realising benefits; and
- Get the best from the Government estate.

Financial position and results in outline

Financial Results

28. The table overleaf sets out the Treasury group's audited outturn of operating costs for 2006-07 and 2007-08 (in the format shown in the 2008 Annual Report, Annex A, Table A2 http://www.hm-treasury.gov.uk/media/B/D/hmt_annual_report030708.pdf).

29. The main variances between the two years are discussed below. Variances between the outturn for 2007-08 and the limits voted by Parliament in the 2007-08 Revised Spring Supplementary Estimate are analysed in note 3 to the accounts.

30. Outturn against the DEL limit was £206 million in 2006-07 and £201 million in 2007-08. This decrease is attributable to a reduction in coinage manufacturing costs (£3 million) alongside savings in Core Treasury's banking and gilts (£1 million), OGC net costs (£2 million) and Other Functions (£1 million). These have been offset by an increase in DMO spending (£3 million), as explained below.

31. The total Resource Budget outturn, including AME expenditure was £236 million in 2006-07, and £226 million in 2007-08. The key year on year changes between 2006-07 and 2007-08 were as follows:

- Coinage metal costs plateaued, during 2007-08, following a trend of sharp increases in market prices for copper and nickel since 2005-06. However, there was a reduction of £3 million in manufacturing costs (DEL), due to demand being lower than expected and a change in accounting treatment for stock, but there was no corresponding reduction in metal costs (AME), demonstrating that metal prices are still relatively high;
- The Treasury's dividend from the Bank of England was £81 million in 2007-08. This amount, though slightly lower than the 2006-07 figure, was higher than average as a result of higher income due to an improvement in the Bank's performance. In 2006-07, there was an exceptional extra dividend which arose from the settlement of £74 million received by the Bank from the liquidators and receivers of BCCI, of which the Treasury received 50 per cent. After allowing for cost of capital, the net cost of investment in the Bank was £1 million in 2006-07 compared to £12.5 million in 2007-08;
- There was an impairment reversal of £15 million following the revaluation of 1 Horse Guards Road in 2007-08;

Group Operating Costs	2006-07 Restated	2007-08 Estimated Outturn
	£m	£m
Core Treasury and Group Shared Services (GSS)	**136**	**135**
Net administration costs, including GSS	118	127
Financial Inclusion Fund (admin)	1	1
Banking and gilts registration	12	11
Other core Treasury programme costs	4	(4)
DMO	**7**	**10**
Net administration costs	7	8
Net programme costs	1	1
Coinage	**19**	**16**
OGC	**33**	**31**
Net administration costs	33	22
OGC Restructuring Costs	-	10
Residual estate	-	-
Efficiency Challenge Fund	-	-
Other functions	**10**	**9**
Grants to Statistics Commission and Parliamentary bodies	2	1
Civil List (net)	8	8
Total Resource Departmental Expenditure Limit (DEL)	**206**	**201**
Core Treasury: impairment charges/ credits	**1**	**(15)**
Coinage	**25**	**24**
Metal costs	23	24
Cost of capital	2	4
Royal Mint Dividend	-	(4)
Net cost of investment in the Bank of England	**1**	**13**
Cost of capital	84	94
Dividend receivable	(83)	(81)
Other functions: Royal Household Pension Fund	**2**	**2**
Total Resource Annually Managed Expenditure (AME)	**29**	**24**
Total Resource Budget as per Annual Report Table A1	**236**	**226**

Reconciliation to Resource Accounts[3]	£000	£000
Total Resource Budget as per Annual Report Table A1, as above	***236,357***	***226,451***
Less non-Voted expenditure outside the resource accounts		
Civil List, net (DEL)	(8,259)	(8,259)
Royal Household Pension Fund, net (AME)	(2,006)	(1,896)
Less non-budgeted income not reported in the Annual Report		
Pool Re reinsurance premium income	(36,292)	(37,286)
Other non-budget income	(323)	-
Net Operating Cost per Resource Accounts	**189,477**	**179,010**

[3] The above reconciliation to the resource accounts is shown in thousands, in line with the primary statements in the resource accounts section of this document. However, the figures in the Group Operating Costs table have been taken from the Departmental Report and are shown in millions, in line with the financial data tables published in that document. Consequently, due to rounding a higher level, the totals in the Group Operating Costs table may differ from the sum of the individual line items.

- Estates rationalisation in 2007-08 saw the OGC London office vacated with staff co-locating with Treasury in the Horse Guards Road building ahead of schedule, and the disposal of Thistle Street in Edinburgh. Group Shared Services transformation is well underway and benefits realisation developing further;
- Corporate Services staff previously employed at OGC transferred to HM Treasury with effect from 1 April 2007;
- 2007-08 marked the last year of SR2004, with costs and staff numbers dropping by 5.66 per cent and 8.29 per cent respectively across the Group for the period; and

Further information on these changes, along with the Group's progress against the efficiency targets and plans set out for the SR2004 period, is set out in the efficiency section of Annex A of the Group Annual Report.

32. Within net administration costs, under Core Treasury and GSS, there is a significant increase in consultancy spending as a result of work in connection with Northern Rock and the Poynter Review. The full cost of the consultancy work was recovered from Northern Rock, Bank of England, Financial Services Authority (FSA) and, in the case of Poynter, from HMRC. All of this was Appropriated In Aid.

33. The increase in the Debt Management Office's resource budget for 2007-08 represents, among other things, a planned renewal programme of the DMO's strategic systems and the continued development of initiatives that are intended to reduce the agency's operational risk and enhance its operational resilience.

34. In line with the Royal Mint's other customers, the Treasury moved from paying for coins upon issue to paying for them upon production. As part of this change, the Treasury purchased the existing stock of finished coins in November 2007. The stock of finished coins awaiting issue stood at just under £8 million as at the balance sheet date. The budgetary impact of the stock purchase will feed through to the Treasury's DEL and AME budgets when the stock is used. The new Service Level Agreement provides that stock production will be per an agreed schedule, with an agreed stock buffer. In exchange for the move to buying stock on production, the Treasury was able to obtain a discount on the manufacturing price. This new arrangement results in timing differences for the Treasury's Net Cash Requirement, however the Royal Mint's stock holding and consequent working capital requirement are reduced.

35. The cost of capital charge on the Treasury's investment in the Royal Mint also increased due to changes in the expected rate of return as well as an increase in its net asset value. The rate for the cost of capital charge was reduced in 2006-07 to 3.5 per cent while the Mint underwent restructuring but was raised to 7.2 per cent as the benefits of restructuring begin to be realised and the Mint returns to profitability.

36. The OGC's planned reduction in Administration spend follows the decision, announced in "Transforming Government Procurement", that OGC will become a smaller, higher calibre organisation with a remit to focus on procurement and property asset management in central government. As part of the transition to a smaller organisation, OGC has undertaken a voluntary early retirement and severance scheme during 2007-08. The costs of this scheme, £10.3 million, scores as programme expenditure.

37. "Other Functions" section of the table includes those costs borne by HM Treasury for historical reasons, but not related to the business of a finance and economics ministry. The Civil List and the Royal Household Pension Scheme are Standing Services of the Consolidated Fund, which are included in HM Treasury's resource budget (and thus included in the Annual Report) but are not voted on by Parliament nor included in the resource accounts.

38. In turn, the resource accounts include some income that is outside HM Treasury's budget, and excluded from the Annual Report, which the department collects on behalf of the Consolidated Fund. The main item of this sort is reinsurance premium income from Pool Re, whereby HM Treasury provides reinsurance for certain terrorist attacks on industrial and commercial property. The 2007-08 income in the resource accounts reflects the 2005 underwriting year.

Balance Sheet

39. Treasury Group's balance sheet is dominated by the asset arising as a result of the recognition of a provision made in respect of the obligation to replace the Bank of England's loan to Northern Rock with direct Treasury funding during summer 2008 (notes 13, 19 and 29), both valued at £19.3 billion, as well as its shareholding in the Bank of England (note 13.1), which is valued in line with the bank's net assets at £2.3 billion.

40. Other significant assets and liabilities include:-

- the operational offices and office equipment used by the three business units (note 11);
- investments in Partnerships UK, OGCbuying.solutions, the Royal Mint and Northern Rock (note 13);
- provisions relating to surplus property portfolio and early retirement costs (note 19); and
- the long term creditor for the 1 Horse Guards Road PFI contract (note 17.1 and note 24.2).

Cash flows

41. The net cash outflow for the year of £5.1m for the group is mainly caused by the payment over to the Consolidated Fund of £5.2m excess appropriations in aid received by the Treasury Group at the end of the 2006-07 financial year, but not paid over until completion of the 2006-07 audit.

Management

Ministers and senior managers

42. The Remuneration Report (page 29) identifies the Treasury's Ministers, those senior managers who are members of the Treasury Board and the Chief Executives of DMO and OGC for 2007-08.

Register of interests

43. Senior managers within the Treasury are required to complete a declaration of any interests. Details of the related party interests of members of the Board including Non Executives are shown in note 30 to the accounts.

Diversity and Equality

44. The Treasury seeks to actively promote a 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. The Department monitors a wide range of other data on staff in post to help address areas of under-representation. This data is published on the external website twice a year. The Treasury's race, disability and equality schemes are also available on the website: http://www.hm-treasury.gov.uk./about/about_equality.cfm.

45. 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. The Treasury supports staff with dependant care responsibilities through a family help line and childcare vouchers as well as arrangements that include 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.

46. The Department has appointed a Diversity 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. Along with other government departments, the Treasury has targets to increase the proportion of women, ethnic minorities and people with disabilities in the senior civil service (SCS) to 37 per cent, 4 per cent and 3.2 per cent respectively by April 2008. In addition, there are targets for under represented groups into the feeder grades to the SCS, the related target for women being 40 per cent.

47. The department's policy on the employment of people with disabilities is detailed on the external website. The Treasury makes reasonable adjustments for employees with disabilities, and to the recruitment process. Further details are at http://www.hm-treasury.gov.uk/careers.

Payment of suppliers

48. All government departments have a target 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 2007-08 the Group achieved a performance of 95 per cent against this target, down from 97 per cent for the previous year. The reduction in performance mainly occurred during the implementation phase of the Group Shared Services project.

Communications

49. The Treasury has a long standing policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. A variety of channels are employed, including Board question times, email alerts, intranet pages, team briefings, newsletters and the staff magazine, and regular meetings and discussions with trades union representatives. The central communications channels are administered by a small internal communications branch, who also provide an internal consultancy and support to Treasury teams on communications issues.

50. The Treasury also shares information with Parliament and the public in a variety of ways – in publications and reports, through the media, online or by way of parliamentary questions, correspondence and its obligations under the Freedom of Information Act. The external website is one of the most valuable means of providing up to date information and is updated regularly to reflect statements made by the Chancellor and other Treasury Ministers, public consultations and the Treasury’s wide-ranging policy work, as well as more formal reports and publications. During 2007-08, the Treasury also targeted wider audiences through the use of new media and communication channels such as interactive television, YouTube and mobile phones.

Corporate Social Responsibility

51. As part of its corporate social responsibility agenda, the Treasury actively promotes employee volunteering, including providing special leave entitlements for the purpose of volunteering, holding regular events with volunatry sector organisations to raise awareness, supporting a staff-led volunteers group and providing related information on the internal website.

Sustainable development

52. The Treasury is committed to sustainable development, playing a key role in the UK’s sustainable development action plan, which can be found at the following website: http://www.sustainable-development.gov.uk/publications/pdf/SustainableProcurementActionPlan.pdf, and striving to reduce the impact of its operations on the environment. More detailed information on progress towards improving energy efficiency and related reductions in carbon emissions, water consumption and waste management and recycling can be found in Chapter 6 of the 2008 Annual Report.

Auditors

53. 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.

54. The Notional charge for statutory audit services for the year ended 31 March 2008 are

Core Treasury and GSS	£128,000
Debt Management Office	£ 22,000

55. The Comptroller and Auditor General also undertakes other statutory activities that are not related to the audit of the Treasury's financial statements.

56. So far as I am aware, there is no relevant audit information of which the Treasury's auditors are unaware. I have taken all necessary steps to ensure that I am aware of all relevant audit information and to ensure that the auditors are aware of the information.

Nicholas Macpherson
Permanent Secretary
15 July 2008

STATEMENT OF TREASURY GROUP COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF GOOD PRACTICE

1. Corporate governance is the way in which organisations are directed and controlled. It defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation, determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance.[4] The Treasury Group has a corporate governance structure that seeks to support the department in delivering its objectives. The Treasury Board manages the Treasury in a manner which enables Directorates and their individual management boards to run the day-to-day business of the Treasury, with the Board providing strategic input, direction and leadership, as well as oversight of risk. The Treasury Board, and its Committees, their membership and their remits are described below.

2. The Treasury Group complies with the provisions in the Corporate Governance Code of Good Practice. The Treasury Group will continue to work to ensure it has the most effective and efficient corporate governance framework possible.

Ministerial Responsibilities

3. The Chancellor of the Exchequer has overall responsibility for the work of the Treasury and is supported by:

- the Chief Secretary to the Treasury, who is responsible for:
  - public spending, including:
    - spending reviews and strategic planning;
    - in-year control;
    - public sector pay and pensions;
    - efficiency and value for money in public services;
    - capital investment; and
    - public service delivery and performance;
  - Treasury interest in devolution
  - assisting the Chancellor where necessary on International and European issues: and
  - oversight of integration of the tax and benefit system.

- the Financial Secretary to the Treasury, who is responsible for:
  - strategic oversight of the UK tax system as a whole including direct, indirect, business and personal taxation;
  - tax credits and integration of the tax and benefit system;
  - departmental minister for HM Revenue and Customs and the Valuation Office Agency;
  - overall responsibility for the Finance Bill;
  - lead Minister on European and international tax issues and assist where necessary on broader European issues;
  - the voluntary sector, charities, including Corporate Social Responsibility;
  - Treasury interest in childcare issues; and

[4] www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_governance_corporate.cfm

  - support to the Chief Secretary on public spending issues and selected Cabinet Committees.

- the Exchequer Secretary, who is responsible for:
  - enterprise and productivity including small business taxation and support to the Chancellor on economic reform;
  - competition and better regulation;
  - science, innovation and skills policy, including implementation of the 10-year science and innovation strategy and the R&D tax credit;
  - regional economic policy;
  - urban regeneration and social exclusion including housing, planning and planning gain supplement;
  - environmental issues including taxation of transport, international climate change issues including global carbon trading and EU ETS, and energy issues;
  - taxation of oil;
  - excise duties and gambling, including excise fraud and law enforcement;
  - public/private partnerships including Private Finance Initiative and Partnerships UK;
  - ministerial responsibility for the Office for National Statistics, the Royal Mint and Departmental Minister for HM Treasury Group;
  - working with the Chief Secretary with responsibility for the Office of Government Commerce and procurement policy;
  - support to the Chief Secretary on public spending issues including long-term challenges in the run up to to the Comprehensive Spending Review and selected Cabinet Committees;
  - assist where necessary on European issues; and
  - working with the Financial Secretary on the Finance Bill.

- the Economic Secretary to the Treasury, who is responsible for:
  - financial services including: city competitiveness, wholesale and retail markets in the UK, Europe and internationally, financial crime, financial inclusion and capability, the Financial Services Authority and the Treasury's responsibility for mutual legislation;
  - financial services tax issues including taxation of savings and investments;
  - personal savings policy;
  - stamp duty land tax and Real Estate Investment Trusts;
  - foreign exchange reserves and debt management policy, with responsibility for National Savings and Investment, the Debt Management Office and the Government Actuary's Department;
  - support to the Chancellor on EU and wider international finance issues, in particular EU Budget;
  - EMU preparations;
  - support to the Chief Secretary on public spending issues including long-term challenges for public spending and preparation of the Comprehensive Spending Review and selected Cabinet Committees;
  - support to the Chancellor on macroeconomic and economic policy issues; and
  - working with the Financial Secretary on the Finance Bill.

- the Minister of State with responsibility for revenue protection at the border, who is responsible for:
    - the operational delivery of the UK Border Agency's (UKBA) revenue protection functions; and
    - delivery of targets covering revenue protection and the examination of goods at the frontier.

Details of the individual Ministers serving in these roles during 2006-07 and 2007-08 can be found in the remuneration report (page 30).

Treasury Board

4. The Treasury Board takes decisions on strategic matters that relate to the Treasury Group. The Board's Committees have group compositions to enable full and wide discussion on relevant group issues. The Treasury Board's aim is to lead a Treasury that delivers its objectives and targets now and in the future. In 2007-08 it met formally 10 times. The Board annually evaluates its remit and performance, which it last discussed at its meeting on 13 December 2007.

5. Membership of the Board at 31 March 2008 was as follows:

Executive members:

- Nicholas Macpherson - Permanent Secretary
- John Kingman - Second Permanent Secretary, and Managing Director, Pubic Services and Growth
- Mark Neale - Managing Director, Budget Tax and Welfare
- Stephen Pickford - Managing Director, International Finance
- Dave Ramsden - Managing Director, Macroeconomic and Fiscal Policy
- Louise Tulett - Director of Finance, Procurement and Operations
- Dame Mary Keegan - Head of Government Finance Profession[5]
- Nigel Smith - Chief Executive of the Office of Government Commerce
- Tom Scholar - Managing Director, International Finance

Non-Executive members:

- Sir Peter Gershon - Sir Peter Gershon is Chairman of Premier Farnell plc and Symbion Limited[6].
- Stella Manzie – Stella Manzie was Chief Executive of Coventry City Council.
- Sir William Sargent - Sir William Sargent is joint Chief Executive of Framestore CFC and since September 2005 has been the chair of the Better Regulation Executive[7].

[5] Dame Mary Keegan attended the Board in her capacity as Managing Director, Government Financial Management and Finance Director until June 2007.

[6] Since Sir Peter Gershon stood down as Chief Executive of the Office of Government Commerce in March 2004 he has had no executive responsibilities in central government.

[7] Sir William Sargent previously served as an executive member of the Cabinet Office Board.

6. During 2007-08 the Board membership changed as some members stepped down from the Board, as detailed below:

Executive members:

- Jon Cunliffe (until June 2007) – Managing Director, International and Finance
- Michael Ellam (until June 2007) - Director of Policy and Planning
- Peter Fanning (until September 2007) - Acting Chief Executive of the Office of Government Commerce
- Sam Beckett (until January 2007) - Director of Policy and Planning

Non-Executive members:

- Sir David Varney (until July 2007) - Sir David Varney was Chairman of Her Majesty's Revenue and Customs until the end of August 2006[8]

7. Since 31 March 2008, there have been some further changes of both executive and non-executive membership:

- Dame Mary Keegan retired from her post as Head of the Government Finance Profession and stepped down as an executive member of the Treasury Board on 31 March 2008.
- Sir Peter Gershon stepped down as a non-executive member of the Treasury Board on 31 March 2008.
- Stella Manzie stepped down as a non-executive member of the Treasury Board on 30 June 2008.

8. Recruitment is ongoing to appoint new non-executive members to the Treasury Board. The Treasury ensures that all of the appointments it makes, both public and departmental, adhere to the highest standards of propriety. Non-executive and executive appointments to the Board are conducted in line with the First Civil Service Commissioner's code and with the involvement of the Commissioner's office. All Board members are required to notify the secretariat of any matters, including investment decisions, which might give rise to a conflict of interest. Non-executive members receive formal and informal induction on appointment, and are sent a monthly information pack relating to ongoing work in the Treasury. The Permanent Secretary holds meetings with just the non-executives present after each Board meeting: individual Executive Board members meet Treasury Ministers on a regular basis.

9. The Board delegates decision making on some day-to-day issues to its supporting committees (detailed later in this section). A short summary of discussions at each Board meeting can be found on HM Treasury's website and minutes are available to staff on the Treasury intranet.

Board Committees

10. The Board is supported by the Group Executive Committee (GEC), which provides a forum for decision-making on urgent Group wide issues required between Board meetings and acted as a formal programme board for the department's Comprehensive Spending Review programme. The GEC meets on an ad-hoc basis.

11. The Board is further supported by four sub-committees – the Group Operations Committee, the Group Finance Committee, the Group Resource Audit Committee and the Exchequer Funds Audit Committee. Operations, Finance and Audit committee chairs present reports of the work of their committees to each Board meeting. Each Committee has responsibility for monitoring and managing risks within its delegated area, escalating risks to the Board where appropriate.

[8] Since leaving the Treasury Board, Sir David Varney has become an advisor to the Prime Minister on Public Service Transformation and a member of the Civil Service Steering Board.

12. The Group Operations Committee is accountable to the Board for operational issues, as delegated under their terms of reference. The Group Operations Committee is chaired by Mark Neale, Managing Director of Budget, Tax and Welfare, and met 11 times in 2007-08.

13. The Group Finance Committee's purpose is to ensure good financial management in Treasury Group including monitoring monthly financial information; and it advises the Board on major financial decisions including resource allocation. The Group Finance Committee was chaired by Dame Mary Keegan from April until June 2007 and by John Kingman, second Permanent Secretary and Managing Director of Public Services and Growth, since then it met 11 times in 2007-08.

14. The Group Resource Audit Committee supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities for managing risk, internal control and governance, related to the Group's Resource Account. Members of the Committee are appointed by the Permanent Secretary for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary and presents a regular report to the Board. The membership of the Committee during 2007-08 was:

- Sir William Sargent – Chair and non-executive member of the Board;
- Stella Manzie – non-executive member of the Board; and
- Colin Thwaite – non-executive member of the OGC Board and former Finance Director and Chief Executive of Littlewoods Organisation plc, Leisure Division.

15. The Group Resource Audit Committee has the opportunity for pre-committee discussion with the National Audit Office and the Group Head of Internal Audit without those additional attendees listed above. The Group Resource Audit Committee met four times in 2007-08.

16. The Exchequer Funds Audit Committee supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities in all matters relating to the: Debt Management Account; Public Works Loan Board; Commissioners for the Reduction of the National Debt; Exchange Equalisation Account; National Loans Fund; Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed by the Permanent Secretary for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reports directly to the Permanent Secretary. The membership of the Committee during 2007-08 was:

- Dr Colin Price OBE – Chair and non-executive member of the DMO Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman – non-executive member of the DMO Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and
- Mark Clarke – until May 2008, Director General Finance and Strategy at the Department for Business, Enterprise and Regulatory Reform.

17. Meetings of the Exchequer Funds Audit Committee were attended as relevant by the appropriate Accounting Officers. The Exchequer Funds Audit Committee met four times in 2007-08.

18. The Group Head of Treasury Internal Audit is the nominated officer for HM Treasury's whistleblowing policy and he has direct access to the Chairs of both the Audit Committees. He was nominated by the Permanent Secretary under HM Treasury's fraud policy.

19. HM Treasury's Government Internal Audit Standards require each Internal Audit Unit to have undertaken an external quality assurance review at least every five years. The last external review of Treasury Internal audit was in 2005.

Other Groups

20. Each of the three organisations within the Group also has its own body responsible for making day-to-day decisions relating to matters within its organisation, consistently with the framework and remits agreed with Treasury Ministers and any Group-wide strategic decisions of the Treasury Board.

21. In HM Treasury, an Executive Management Group (chaired by the Permanent Secretary and consisting of the Managing Directors and the Group Director of Finance, Procurement and Operations) meets weekly to discuss current issues and makes decisions required between Board meetings on issues affecting HM Treasury.

22. OGC's Board met 10 times in 2007-08. From April to September 2007, the Board was chaired by the acting Chief Executive Peter Fanning and, since his appointment in September 2007, it has been chaired by the new Chief Executive, Nigel Smith. During the year, five Executive Directors, three Non-Executive Directors and the Chief Executive of OGCbuying.solutions have supported OGC's Chief executive on the Board. William Jordan, the then Deputy Chief Executive, chaired OGC's Operations Committee. The OGC Operations Committee is a sub-committee of the OGC Board with responsibility for tracking and managing OGC's performance against its targets and milestones. It met eight times during 2007-08.

23. DMO's Managing Board is responsible for strategic, operational and management issues. It is chaired by the Chief Executive of the DMO and comprises four Executive members (including the Chief Executive) and three Non-Executive Directors, including a Treasury representative. It met eight times in 2007-08. Further information is available in the DMO and DMA Report and Accounts 2007-08.

ARMS-LENGTH BODIES

The Bank of England

24. The Bank of England is the UK's central bank and is responsible for: maintaining stable prices and confidence in the currency; and detecting and reducing threats to the financial system as a whole.

25. The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998)[9]. Part 1 of the Act sets out the constitution, regulation and financial arrangements for the Bank, including the requirements for the Bank to report annually to the Chancellor on its activities and its accounts. The Act provides for a Court of Directors and a Committee of Non-executive Directors ('NedCo') within Court. Court is responsible for managing the Bank's affairs, other than in the formulation of monetary policy. This includes determining the Bank's objectives and strategy, and aiming to ensure the most efficient use of the Bank's resources. NedCo has responsibility for reviewing the Bank's performance in relation to its objectives and strategy, monitoring the extent to which the Bank's financial management objectives are met, and reviewing the Bank's internal controls. The Court consists of the Governor, two Deputy Governors and 16 Non-executive Directors. All are appointed by the Crown on a recommendation of the Prime Minister, as advised by the Chancellor. The Governor and deputy Governors are appointed for a period of five years and the Directors for three years, the Chairman is designated by the Chancellor. The Chancellor appoints the chairman of NedCo who is also the Deputy Chairman of the Court.

26. Part 2 of the Act sets out Monetary Policy arrangements. The Act establishes a Monetary Policy Committee (MPC), and sets a framework for its operations. The Treasury's role is limited to the specification of the price stability target and articulating the economic policy of the Government. The Bank's Monetary Policy Committee is made up of nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. The appointment of external members is designed to ensure that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England.

[9] www.bankofengland.co.uk/about/legislation/1998act.pdf

27. The statutory provisions are supplemented at an operational level with several written memoranda of understanding and service level agreements setting out definitions of how the relationship functions across different areas, and the duties and responsibilities of key players. More information on the Treasury's relationship with the Bank of England as part of the Tripartite arrangements between the Treasury, the Bank of England and the Financial Services Authority can be found in Chapter 3 of the Annual Report. More details of the work of the Bank of England can be found on its website.[10]

Northern Rock

28. Northern Rock was taken into temporary public ownership on 22 February 2008. A Framework Document[11] agreed between the Company and its shareholder, HM Treasury, sets out the shareholder relationship between the Company and the Treasury. The ongoing relationship between the Company and the Treasury as shareholder, the Treasury and the Bank of England as creditor and the Financial Services Authority as regulator will be underpinned by the Tripartite Authorities' stated objectives: to protect taxpayers, to promote financial stability, and to protect consumers. The Northern Rock Board will implement a business plan[12] which takes into account these objectives and is consistent with the aim of temporary public ownership. Tom Scholar is a non-executive director on the Northern Rock board as well as an executive member of the Treasury board (note 30.1).

29. Under the Framework Document the Treasury as shareholder:

- appoints the Chairman of the Northern Rock Board and two Non-Executive Directors in consultation with the Chairman;
- approves its consent for the appointment of other members of the Northern Rock Board proposed to be appointed by the Northern Rock Nominations Committee and agrees the terms on which the Directors are appointed and incentivised;
- determines the high level objectives that the business plan is designed to achieve and agrees the plan with the Northern Rock Board;
- must agree any subsequent updates to the business plan;
- reviews with the Northern Rock Board from time to time the Company's strategic options;
- requires that the Northern Rock Board is accountable to it for delivering the agreed business plan;
- gives the Northern Rock Board the freedom to take the actions necessary to deliver the business plan;
- monitors the Company's performance to satisfy itself that the business plan is on track; and
- must give its consent for certain significant actions.

[10] www.bankofengland.co.uk

[11] www.hm-treasury.gov.uk/media/3/3/nr_shareholder_framework_310308.pdf

[12] http://companyinfo.northernrock.co.uk/downloads/Summary_of_Proposed_Business_Plan.pdf

30. In accordance with the Framework Document, the Company will operate a corporate governance structure which, so far as practicable and in light of the other provisions of the Framework Document, or as otherwise may be agreed with HM Treasury, as Shareholder, takes appropriate account of best practice for a company listed on the Official List, including the Combined Code on Corporate Governance (the “Combined Code”). The Northern Rock Board will continue to operate the following committees:

- Audit Committee;
- Risk Committee;
- Remuneration Committee; and
- Nominations Committee.

31. More information on the Treasury’s relationship with Northern Rock is available in the notes to the accounts.

Royal Mint

32. The Royal Mint’s primary purpose is the provision and maintenance of UK coinage. It also provides coinage services to overseas central banks and mints. It also manufactures official medals and collectables for both the UK and overseas retail and wholesale markets.

33. The Treasury has both a shareholding and a customer relationship with the Royal Mint. The Chancellor of the Exchequer is Master of the Mint. The Chancellor has delegated responsibility to the Exchequer Secretary (XST) who sets performance and financial targets; the day-to-day shareholding responsibilities are delegated to the Shareholder Executive.

34. It takes advice on the operation of its shareholder interest from the Shareholder Executive. The exact nature of this arrangement and the relative involvement of Shareholder Executive officials with the Royal Mint and with the Treasury is set out in the Delegated Remit. The Shareholder Executive provides full information to the XST on the Royal Mint's financial performance - both achieved and prospective - twice each year. The XST appoints the Deputy Master of the Mint (CEO) and non-executive members of the board, the Deputy Master appoints executive members; no member of staff from the Treasury or Shareholder Executive sits on the board of the Royal Mint.

35. The customer relationship is governed by a Service Level Agreement that sets out the arrangements for the supply of UK coinage. More information on the Royal Mint can be found on its website.[13]

OGCbuying.solutions

36. OGCbuying.solutions (OGCbs) is a trading fund and an Executive Agency of the Office of Government Commerce (OGC), which is itself an Office of the Treasury. The Chief Executive and Accounting Officer of OGCbs is Alison Littley. The Chief Executive of OGCbs, and the other members of the OGC Board, are appointed by the Chief Executive of OGC.

37. The relationship between the Treasury and OGCbs, much of which is conducted through OGC, is laid out in an Agency Framework document which is subject to periodic review. Each year, the OGC CEO sets key performance targets for OGCbs that are published as part of OGC targets and which are approved by the XST.

38. The Treasury Permanent Secretary is Principal Accounting Officer, but day-to-day running of OGC and OGCbs is delegated to the OGC CEO.

[13] www.royalmint.com

39. The management of OGCbs risks is the responsibility of its Accounting Officer. The Treasury's available input channels are via the OGC Chief Executive's membership of the Treasury's Board, the Treasury Permanent Secretary's chairmanship of the OGC Commercial Delivery Board, meetings between the OGC Chief Executive and the Treasury Permanent Secretary, and close working relations between OGC and the Treasury's Corporate & Private Finance team. More information on OGCbs can be found on its website.[14]

Partnerships UK

40. Partnerships UK (PUK) is the successor body of the Treasury Taskforce, which was created in 2000 as a central support body for the UK's Private Finance Initiative.

41. It is a public/private partnership that assists governments and other public bodies in the UK and elsewhere in the development, procurement, financing, implementation and management of private finance and public/private partnership projects. It does this by entering into joint ventures, participating in public/private partnership projects with private persons or by acting as an investor, financier, consultant, or otherwise. It also promotes the development and use of public/private partnerships generally.

42. The private sector has a 51 per cent majority shareholding in the company, and the public sector has a 49 per cent investment (HM Treasury 45 per cent, Scottish Executive 4 per cent).

43. The Treasury has two relations with PUK – one as a major shareholder and secondly as a customer of PUK services. The Treasury's two functions are separately administered.

44. The Shareholder Executive (ShEX) advises Treasury in fulfilling its shareholder function in relation to PUK. A Memorandum of Understanding establishes the responsibility delegated to ShEX in supporting the Treasury's financial interests and governance aspects in relation to PUK. The Treasury retains the lead on policy and client related issues.

45. The Treasury's client relationship with PUK is governed by a five-year Framework Agreement, last agreed in 2005, under which an annual budget for PUK services over each of the years of the contract term is established.

46. The Treasury's obligations in relation to risk management are covered through two arrangements; firstly through its shareholder rights, and secondly through the Advisory Council. The Treasury's shares in PUK give the Treasury the right to nominate two Non-executive Directors to sit on the PUK Board which meets monthly (with separate meetings of the Investment, Audit and Remuneration Committees). The Non-executive Directors ensure that the Treasury can monitor and influence strategic direction as well as the delivery of financial objectives and value for money.

47. The Treasury also coordinates the Advisory Council, which is currently chaired by HM Treasury's Permanent Secretary, and consists of representatives from Government Departments, including the Treasury the Devolved Administrations, local authorities and other public bodies. The role of the Advisory Council is to advise the Treasury on whether PUK is achieving its public sector mission. The Advisory Council meets twice a year and produces a report on PUK's activities which is published by the Treasury and available on the PUK website.[15]

Pool Re and Pool Re (Nuclear)

48. Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. More information on Pool Re can be found on its website.[16]

[14] www.online.ogcbuyingsolutions.gov.uk

[15] www.partnershipsuk.org.uk

[16] www.poolre.co.uk

49. Pool Re is a mutual company, limited by guarantee. The Treasury is responsible for appointing one Director to the Boards of Pool Re and Pool Re (Nuclear), who is, in addition to statutory responsibilities as a Director, responsible for considering the public interest.

Statistics Commission

50. The Statistics Commission, previously the Treasury's only non-departmental public body, was wound-up on 31 March 2008 and replaced by the Statistics Board, responsibility for which resides with the Cabinet Office. From 1st April 2008, the UK Statistics Authority will be responsible to Parliament for building trust in UK statistics; for further information please see the website.[17]

Nicholas Macpherson
Permanent Secretary
15 July 2008

[17] www.statisticsauthority.gov.uk

STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

1. Under the Government Resources and Accounts Act 2000, the Department is required to prepare Resource Accounts for each financial year, in conformity with an HM Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

2. 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.

3. HM Treasury has appointed me 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.

4. In preparing the accounts, I am required to comply with the Government Financial Reporting 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 Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- iv) prepare the accounts on a going-concern basis.

5. Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the UK 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. The Chief Executive of the UK Debt Management Office (Robert Stheeman) is Accounting Officer for the UK Debt Management Office and the Chief Executive of the Office of Government Commerce (Nigel Smith) is Accounting Officer for the Office of Government Commerce. These appointments do not detract from my overall responsibility for the Treasury's accounts.

6. 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 Chapter 3 of *Managing Public Money* (MPM), published by the Department.

7. I confirm that in connection with the audit of the Resource Accounts that I have taken steps to ensure that the auditors are aware of all relevant information.

Nicholas Macpherson
Permanent Secretary
15 July 2008

STATEMENT ON INTERNAL CONTROL 2007-08

Scope of Responsibility

1. As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Treasury Group[18] policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

2. For the period covered by this report, immediate responsibility for the systems of internal control in the Office of Government Commerce and in the UK Debt Management Office lay with their respective Chief Executives as Additional Accounting Officers. The role of Accounting Officer is defined by *Managing Public Money*[19] and the division of responsibility between HM Treasury and the Accounting Officers of its other bodies is set out in a separate Memorandum. In their capacity as Additional Accounting Officers, the Chief Executives of both the OGC and DMO have provided me with separate assurances on the effectiveness of their systems of internal control upon which I place reliance when signing this statement.

The Purpose of the System of Internal Control

3. 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.

4. The system of internal control is designed to:

- identify and prioritise the risks to the achievement of departmental policies, aims and objectives;
- evaluate the likelihood of these risks being realised;
- assess the potential impact of these risks should they be realised; and
- manage these risks efficiently and economically in order to achieve effective operations, reliable financial reports and compliance with appropriate laws and regulations.

5. The system of internal control for the Treasury Group is designed to ensure effective and proportional internal control measures. It is reviewed by internal audit as part of their agreed work programme and is subject to ongoing improvements.

The risk and control framework and capacity to handle risk

6. The Treasury Group aims to manage risks at the lowest level at which they are controllable. The Treasury Board has overall responsibility for all strategic Group risks, which are escalated through the Group for Board scrutiny. Additional Accounting Officers and individual Managing Directors have delegated responsibility for ensuring that risks in their areas are appropriately dealt with. Individual organisations within the Group have their own risk management and control frameworks, detailed below.

Risk management in the Treasury Group

7. As set out in chapter 6 of the Annual Report, the Treasury Board is supported in its responsibility of managing risk to the Treasury Group by five sub-committees: the Group Operations Committee, the Group Finance Committee, the Group Resource Audit Committee, the Exchequer Funds Audit Committee and the Group Executive Committee, all of which have a group composition.

8. The Group Operations Committee and the Group Finance Committee manage operational and financial risks on behalf of the Board, informed by reporting on HR, finance, efficiency and other corporate metrics.

[18] Comprising HM Treasury, the Office of Government Commerce and the United Kingdom Debt Management Office.

[19] Annex 4.15 http://www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_managingpublicmoney_publication.cfm

9. The Group Resource Audit Committee and the Exchequer Funds Audit Committee have responsibility for oversight of the Treasury Group's governance, internal control, risk management processes and behaviours, agreeing internal and external audit work programmes and overseeing reports.

10. The Group Executive Committee has responsibility for managing risks relating to the implementation of the Treasury Group's Comprehensive Spending Review settlement and resolving issues that affect the administration of all the organisations in the Treasury Group.

11. Risks to the Treasury Group's delivery objectives are managed through the performance management framework for the Treasury Group's Public Service Agreement (PSA) targets. For the period April 2007 to March 2008, the Treasury Group had 10 PSA targets and 8 objectives against which its performance was measured which were set under the 2004 Spending Review. The owner of each PSA target reported quarterly to the Treasury Board on targets at risk of underperformance, identifying mitigating actions.

12. Specific risks relating to events in the financial sector that may impact on the Treasury's delivery objectives have been closely monitored and reviewed at meetings of the Treasury Board, Executive Management Group and in other meetings of officials, and the potential impact on the Treasury's finances closely assessed at the Group Resource Audit Committee and the Group Finance Committee alongside reviews of associated risks.

13. Risks to the Treasury Group's internal financial controls are managed by individuals as part of the devolved business planning process, and reviewed by the Group Finance Committee with particular attention paid to risks with a high potential financial impact.

14. Risks to data and information held by the Treasury Group are owned and managed by individuals responsible as information asset owners. There is a Senior Information Risk Owner (SIRO) for HM Treasury and for the OGC, responsible for the information risk policy and risk assessment, and who act as an advocate for information risk on the Board and in internal discussions. The Senior Information Asset Owner (SIAO) has overall responsibility for the Information Asset Register and functional responsibility for managing information asset owners.

15. The Treasury Board delegates responsibility for day-to-day operational and policy risks which affect the individual organisations in the Group to the relevant committee: in HM Treasury, the Executive Management Group; in OGC, the OGC Board; and in the DMO, the DMO Board; all of which can take urgent decisions on behalf of the Treasury Board between Treasury Board meetings.

Risk management in HM Treasury

16. HM Treasury's risk management framework and business planning processes require staff at all levels to identify and manage risks associated with the Treasury's work programme. Senior managers identify and manage risks as part of the work programme in each directorate, reviewed across the year by the Executive Management Group and the Permanent Secretary. Groups of officials are also convened as required to review new or emerging risks in priority areas.

17. Risk awareness is embedded in Treasury training courses where relevant. This includes risk management, investment appraisal and economic and financial appraisal techniques for assessing capital projects. Risk management is also covered in project management training courses. The Treasury has a designated Risk Improvement Manager who acts as the co-ordination point between the Treasury and the Government's central risk team, cascading information to the organisation as appropriate.

Risk management in the Office of Government Commerce

18. Within the OGC risk is controlled at various levels throughout the organisation. The OGC Board owns the OGC's high level/strategic risks, with Board members responsible for cascading these risks down within their own Directorate. Throughout the year, each risk is actively reviewed to provide assurance that the necessary mitigation action is being taken and that it is effective. The registers are also reviewed regularly to ensure that new risks are identified and to eliminate risks that are no longer relevant.

Risk management in the Debt Management Office

19. The DMO has various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. A key component is a Risk Committee that meets every month and more frequently at times of market stress. Processes are in place for regular measurement and monitoring of key business risks, including credit, market and liquidity risks. Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. New risks and risks with an increased likelihood of occurrence are highlighted and actions identified to ensure all risks will be effectively managed. The DMO has Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The DMO Managing Board has reviewed during the year the high level risks that the organisation faces and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Additionally, key risks, progress on treatment actions and exceptions are documented in a quarterly report produced by the Risk Management Unit for Senior Risk Owners and the DMO Managing Board.

Review of Effectiveness

20. As Accounting Officer, my review of the effectiveness of the system of internal control is informed by the work of executive managers across the group who have delegated responsibility for the development and maintenance of a sound internal control framework and risk management, and by the reports and comments made by the internal and external auditors. I have been supported in this task by the Board, Audit Committees, and risk owners in addressing weaknesses and ensuring continuous improvement of the system in place.

21. Ongoing review of the effectiveness of the control and risk management system across the Group is provided by:

- the Treasury Board which meets ten times a year to consider the plans and strategic direction of the Group;
- the senior management teams of OGC and DMO who have their own control and risk framework structures and provide me with assurances on their internal control;
- the Group Resource Audit Committee, which reviews the corporate risk register and ensures the internal audit programme of reviews is informed by the top departmental risks;
- the Treasury Group Finance and Operations committees which manage more detailed risks on behalf of the Board;
- regular progress reporting 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;
- quarterly performance reporting to the Board covering finance, efficiency, HR and other corporate information;
- my regular meetings with the Chief Executives of the OGC and DMO; and
- regular monitoring of key operational information technology and information systems projects, in line with OGC guidance.

Significant Internal Control Issues 2007- 08

22. No significant internal control issues in the Treasury Group were identified in 2007-08.

Some of the actions initiated during the year

23. Treasury Group Internal Audit's annual report identified the need to make risk management more consistent. A fundamental examination and revision of HMT's risk management procedures will take place during summer 2008.

24. In line with good practice, and one year on from the creation of the Group Audit Committees, a review of the Audit Committee arrangements was undertaken between January and May 2008, based on self-assessments by the committees and interviews with key committee stakeholders, to improve the effectiveness and operation of the committees.

25. Risks relating to data and information held by the Treasury Group have been subject to a review this year as part of a Government review covering the wider public sector. The review revealed that HMT does not handle significant personal data but that its risk strategy is focussed mainly on handling information. The review highlighted that overall policies and processes were sound but that there were some risks around implementation of the policies appropriately in all scenarios. Continuous improvement is being driven to ensure total compliance through wider education and enabling technical improvements.

26. An internal audit review of recruitment practice raised some weaknesses around compliance with recruitment policies. A programme of management actions to monitor and better demonstrate compliance has been put in place.

27. The Treasury Group regularly review their business continuity arrangements and plans. During the last year the Treasury has moved its business continuity site to a new user site in London, with business continuity IT moving to Norwich. This has delivered additional resilience and user facilities. There is regular liaison with key stakeholders on business continuity issues, in particular the Bank of England and the Financial Services Authority.

Northern Rock

28. A key factor affecting the Treasury's work since Summer 2007 has been the continuing difficulties in global financial markets. The Treasury exercised a number of management actions during the year in response to identified risks to financial stability, including authorising the Bank of England to provide support for Northern Rock in September 2007, introducing the Banking (Special Provisions) Act 2008 and subsequently, taking Northern Rock into temporary public ownership in February 2008 under that Act.

Internal Audit

29. During the period of this SIC, the Internal Audit strategy was to undertake a risk-based audit approach consistent with the organisation’s goals and objectives. In accordance with this strategy, Internal Audit delivered reports to the relevant audit committees on the effectiveness of risk management, control and governance in HM Treasury, OGC and DMO.

30. The Chair of the Group Resource Audit Committee had regular meetings with the Permanent Secretary and the Chair of the Exchequer Funds Audit Committee had regular meetings with the Chief Executive of the Debt Management Office. Internal Audit attended meetings of each Audit Committee to provide progress reports and report results of audit work. Assurance on the resource accounts was derived from audits performed over the last two years combined with follow-up work to confirm that appropriate management action had been taken to address audit recommendations.

31. Over the financial year 2007-08, internal audits have been conducted in HM Treasury, OGC and DMO to provide a reasonable level of assurance to the Accounting Officers across the group on the adequacy and effectiveness of the risk management, control and governance processes relevant to the Group Resource accounts. It is the Group Head of Internal Audit's opinion that reasonable assurance on risk management, control and governance of Treasury Group can be obtained from the audit work conducted during the year.

Nicholas Macpherson
Permanent Secretary
15 July 2008

MINISTERS' AND SENIOR MANAGERS' REMUNERATION REPORT

Remuneration Policy

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

2. The Review Body on Senior Salaries advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

3. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

4. Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit and on the basis of fair and open competition, but also includes details of the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk. 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. Other senior managers, including the Chief Executive of the DMO and Non Executive Members of the Treasury Board, are appointed by the Permanent Secretary.

5. Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to senior managers during the year.

6. Independent Non Executive members of the Treasury Board are recruited through fair and open competition. All Non Executive members of the Board are appointed by the Permanent Secretary. Non Executive members of the Board are appointed for an initial period of three years with an option to extend for a further three years. These appointments can be terminated with one month's notice period. There is no provision for compensation for early termination.

Salaries and Pension Entitlements of HM Treasury Ministers and Senior Management

7. The following sections provide details of 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. These disclosures have been subject to audit.

Salaries and Pensions of Ministers

Name	2007-08		2006-07		Total accrued pension at age 65 at 31/03/08 (£k)	Real increase in pension at age 65 (£k)	CETV at 31/03/08 or end date (nearest £k)	CETV at 31/03/07 or start date (nearest £k)	Real increase in CETV (nearest £k)
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)					
Alistair Darling Chancellor of the Exchequer (from 28/06/07)	58,105 (FYE 76,904)	5,900	-	-	15 - 20	0 - 2.5	256	235	11
Gordon Brown[20] Chancellor of the Exchequer (to 27/06/07)	18,799 (FYE 76,904)	1,800	74,902	7,500	15 - 20	0 - 2.5	274	265	4
Yvette Cooper Chief Secretary to the Treasury (from 24/01/08)	14,471 (FYE 76,904)	-	-	-	5 - 10	0 - 2.5	48	45	1
Andy Burnham Chief Secretary to the Treasury (from 30/06/07 to 23/01/08)	43,634 (FYE 76,904)	-	-	-	0 - 5	0 - 2.5	18	13	2
Stephen Timms Chief Secretary to the Treasury (from 05/05/06 to 28/06/07)	18,799 (FYE 76,904)	-	67,925 (FYE 74,902)	-	5 - 10	0 - 2.5	88	84	2
Des Browne Chief Secretary to the Treasury (to 04/05/06)	-	-	12,484 (FYE 75,651)	-	-	-	-	-	-
Dawn Primarolo Paymaster General (to 29/06/07)	9,752 (FYE 39,893)	-	38,854	-	5 - 10	0 - 2.5	138	129	4
Jane Kennedy Financial Secretary to the Treasury (from 30/06/07)	30,031 (FYE 39,893)	-	-	-	5 - 10	0 - 2.5	73	65	3

[20] Although it does not effect the Parliamentary Contributory Pension Fund (PCPF) scheme rules as they currently stand, Gordon Brown has retained his PCPF pension earned as Chancellor as well as being covered by the special pension arrangements for Prime Ministers until such time as legislative changes are made.

HM Treasury Resource Accounts 2007-08

Salaries and Pensions of Ministers continued

Name	2007-08 Salary and full year equivalent (FYE) (£)	2007-08 Benefits in kind (nearest £100)	2006-07 Salary and full year equivalent (FYE) (£)	2006-07 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/08 (£k)	Real increase in pension at age 65 (£k)	CETV at 31/03/08 or end date (nearest £k)	CETV at 31/03/07 or start date (nearest £k)	Real increase in CETV (nearest £k)
John Healey Financial Secretary to the Treasury (to 29/06/07)	9,498 (FYE 38,854)	-	38,854	-	5 - 10	0 - 2.5	46	43	1
Angela Eagle Exchequer Secretary to the Treasury (from 30/06/07)	22,794 (FYE 30,280)	-	-	-	0 - 5	0 - 2.5	33	27	2
Kitty Ussher Economic Secretary to the Treasury (from 30/06/07)	22,794 (FYE 30,280)	-	-	-	0 - 5	0 - 2.5	4	0	1
Ed Balls Economic Secretary to the Treasury (from 05/05/06 to 29/06/07)	7,209 (FYE 29,491)	-	26,637 (FYE 29,491)	-	0 - 5	0 - 2.5	6	5	1
Ivan Lewis Economic Secretary to the Treasury (to 04/05/06)	-	-	6,476 (FYE 29,786)	-	-	-	-	-	-
Liam Byrne[21] Joint Secretary of State to the Treasury and Secretary of State to the Home Office (from 24/01/08)	-	-	-	-	-	-	-	-	-

CETV stands for Cash Equivalent Transfer Value, explained on page 37. Due to certain factors being incorrect in last years CETV calculator there may be a slight difference between the final period CETV for 2006-07 and the start of period CETV for 2007-08. The salary and pension details disclosed relate to a full financial year, unless the minister concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column.

[21] Liam Byrne's salary and pension arrangements remain the responsibility of Home Office and the relevant disclosures can be found in their resource accounts, accordingly.

Salaries and Pensions of Senior Management

Name	2007-08 Salary range and full year equivalent (FYE) (£000)	2007-08 Benefits in kind (nearest £100)	2006-07 Salary range and full year equivalent (FYE) (£000)	2006-07 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/08 (Range £k)	Real increase in pension at age 60 (Range £k)	CETV at 31/03/08 or end date (nearest £k)	CETV at 31/03/07 or start date (nearest £k)	Real increase in CETV (nearest £k)
Nicholas Macpherson Permanent Secretary	180 - 185	16,400	170 - 175	20,200	45 - 50 plus lump sum 145 - 150	2.5 - 5 plus lump sum 7.5 - 10	882	713	53
John Kingman Second Permanent Secretary (from 22/10/07)	60 - 65 (FYE 135 - 140)	-	-	-	20 - 25 plus lump sum 65 - 70	2.5 - 5 plus lump sum 7.5 - 10	302	224	34
Managing Director (to 21/10/07)	80 - 85 (FYE 110 - 115)	-	110 - 115	-					
Jon Cunliffe Second Permanent Secretary (to 26/06/07)	30 - 35 (FYE 135 - 140)	-	140 - 145	-	45 - 50 plus lump sum 135 - 140	(0 - 2.5) plus lump sum (0 - 2.5)	856	890	(1)
Nigel Smith[22] Chief Executive OGC (from 03/09/07)	100 - 105 (FYE 175 - 180)	-	-	-	NA	NA	NA	NA	NA
Peter Fanning Acting Chief Executive OGC (from 01/04/07 to 02/09/07)	55 - 60 (FYE 135 - 140)	8,100	-	-	5 - 10	0 - 2.5	138	104	18
John Oughton Chief Executive OGC (to 31/03/07)	-	-	160 - 165	20,300	-	-	-	-	-
Robert Stheeman Chief Executive DMO	135 - 140	-	125 - 130	-	5 - 10	0 - 2.5	150	104	24

[22] Nigel Smith has opted out of the civil service pension scheme arrangements and no employer contributions are made to an alternative scheme on his behalf.

Salaries and Pensions of Senior Management continued

Name	2007-08 Salary range and full year equivalent (FYE) (£000)	2007-08 Benefits in kind (nearest £100)	2006-07 Salary range and full year equivalent (FYE) (£000)	2006-07 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/08 (Range £k)	Real increase in pension at age 60 (Range £k)	CETV at 31/03/08 or end date (nearest £k)	CETV at 31/03/07 or start date (nearest £k)	Real increase in CETV (nearest £k)
Mark Neale Managing Director	125 - 130	-	120 - 125	-	35 - 40 plus lump sum 115 - 120	0 - 2.5 plus lump sum 2.5 - 5	761	638	25
Dame Mary Keegan[23] Part-time Head of the Government Finance Profession (from 01/09/07 to 31/03/08)	70 - 75 (FYE 95 – 100)	-	-	-	0 - 5	(0 - 2.5)	54	50	(2)
Finance Director (to 03/06/07) and full-time Managing Director (to 31/08/07)	85 - 90 (FYE 160 - 165)		170 - 175	-					
Dave Ramsden Managing Director (from 13/06/07)	75 - 80 (FYE 95 - 100)	-	-	-	25 - 30 plus lump sum 75 - 80	2.5 - 5 plus lump sum 10 - 12.5	404	259	59
Stephen Pickford Managing Director (from 09/07/07)	75 - 80 (FYE 105 – 110)	-	-	-	45 - 50 plus lump sum 140 - 145	2.5 - 5 plus lump sum 10 - 12.5	1,114	860	85
Tom Scholar Managing Director (from 11/02/08)	15 - 20 (FYE 130 - 135)	-	-	-	25 - 30 plus lump sum 75 - 80	0 - 2.5 plus lump sum 0 - 2.5	351	337	2
Jonathan Stephens Managing Director (to 01/10/06)	-	-	70 - 75 (FYE 110 - 115)	-	-	-	-	-	-

[23] In addition to the usual salary and bonus payments, Dame Mary Keegan was paid for 20 days accrued annual leave on retirement.

Salaries and Pensions of Senior Management continued

Name	2007-08		2006-07						
	Salary range and full year equivalent (FYE) (£000)	Benefits in kind (nearest £100)	Salary range and full year equivalent (FYE) (£000)	Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/08 (Range £k)	Real increase in pension at age 60 (Range £k)	CETV at 31/03/08 or end date (nearest £k)	CETV at 31/03/07 or start date (nearest £k)	Real increase in CETV (nearest £k)
Sam Beckett									
Director of Policy and Planning (from 25/06/07 to 14/01/08) (part-time basis)	45 - 50 (FYE 65 - 70)	-	-	-	15 - 20 plus lump sum 55 - 60	0 - 2.5 plus lump sum 0 - 2.5	266	225	8
Director of Operations (to 24/06/07) (part-time basis)	15 - 20 (FYE 65 - 70)	-	65 - 70	-					
Michael Ellam									
Director of Policy and Planning (to 26/06/07)	15 - 20 (FYE 80 - 85)	-	85 - 90	-	10 - 15 plus lump sum 40 - 45	0 - 2.5 plus lump sum 0 - 2.5	145	164	2
Louise Tulett									
Director of Finance and Procurement (from 04/06/07 to 24/06/07)	0 - 5 (FYE 85 - 90)	-	-	-	5 - 10 plus lump sum 20 - 25	0 - 2.5 plus lump sum 5 - 7.5	146	86	34
Director of Finance, Procurement and Operation (from 25/06/07)	65 - 70 (FYE 85 - 90)	-	-	-					

CETV stands for Cash Equivalent Transfer Value, explained on page 37. Due to certain factors being incorrect in last year's CETV calculator there may be a slight difference between the final period CETV for 2006-07 and the start of period CETV for 2007-08. Where full year equivalent (FYE) salary figures are shown, they do not include any bonuses paid or payable. Further details of bonuses actually paid during these financial years can be found on the table overleaf. However, as performance pay is awarded in arrears, the bonuses payable, for performances during the 2007-08 financial year, are not yet known and will, therefore, be disclosed in next year's accounts. Furthermore, the salary and pension details disclosed relate to a full financial year, as stated in the relevant column headings, unless the director concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column.

Salary

8. 'Salary' includes gross salary; performance pay or bonuses paid during the year, as detailed below; 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. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are shown. The pay committees, covering those senior managers listed in the tables above and below, comprise either the Permanent Secretary and senior outside member (usually a non-executive director) or managing directors and a senior outside member (either a non-executive director or a suitable senior person from another department), dependent on the grade of the manager whose pay is being reviewed.

Bonuses paid to Senior Management (These disclosures have been subject to audit).

Name	**2007-08** Bonus range (£000)	**2006-07** Bonus range (£000)
Nicholas Macpherson	15 - 20	10 - 15
John Kingman	15 - 20	10 - 15
Jon Cunliffe	-	5 - 10
Nigel Smith	-	-
Peter Fanning	-	-
John Oughton	-	5 - 10
Robert Stheeman	10 - 15	5 - 10
Mark Neale	10 - 15	5 - 10
Dame Mary Keegan	20 - 25	10 - 15
Dave Ramsden	-	-
Stephen Pickford	-	-
Tom Scholar	-	-
Jonathan Stephens	-	5 - 10
Sam Beckett	5 - 10	-
Michael Ellam	-	5 - 10
Louise Tulett	-	-

Performance pay is awarded in arrears, therefore, the bonuses payable for performances during the 2007-08 financial year, are not yet known and will be disclosed in next year's accounts, accordingly. Similarly, bonuses paid during 2007-08, relate to performance in 2006-07, so are not disclosable for those who were not full members of the Board in 2006-07 or earlier years. Details of start and end dates for those not serving the full term can be found in the main salaries and pension disclosures table above.

9. 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 (£61,820 from 1 November 2007, £61,181 from 1 April 2007, £60,277 from 1 November 2006, £59,686 from1 April 2006) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in note 6.5 to the accounts.

Benefits in Kind

10. The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. The benefits in kind disclosed above for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street. These are capped at 10 per cent of his salary. Those for the Permanent Secretary and Chief Executive of the OGC relate to the private use of an allocated car in the circumstances permitted by the Civil Service Management Code. In addition, ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. The Treasury has an agreement with HM Revenue & Customs to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

Ministerial Pensions

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

12. Those ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF (details of which are not included in this report). The arrangements for ministers provide benefits on an 'average salary' basis, taking account of all service as a minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that choose to backdate the change) but ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and the lower rate of employee contribution.

13. 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 per cent of their ministerial salary if they have opted for the 1/50th accrual rate or 10 per cent of salary 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 26.8 per cent of the ministerial salary.

14. The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service Pensions

15. Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, and classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

16. Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings 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. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

18. The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

19. Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk .

Cash Equivalent Transfer Values

20. 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. For the senior management's pension entitlements from the Civil Service pension 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 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 Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with 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. Similarly, for ministers, 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 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real Increase in CETV

21. This reflects the increase in CETV effectively funded by the employer. It does not include 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.

Fees of Non-Executives

	2007-08		2006-07	
Name	Fees range (£000)	Benefits in kind (rounded to nearest £100)	Fees range (£000)	Benefits in Kind (rounded to nearest £100)
Sir Peter Gershon (to 31/03/08)	5 - 10	-	5 - 10	-
Stella Manzie	5 - 10	-	5 - 10	-
Sir William Sargent	5 - 10	-	5 - 10	-
Sir David Varney (to 31/07/07)	Nil	-	Nil	-

22. Sir Peter Gershon completed a review of certain aspects of the Government's Efficiency Programme, in May 2007, for which he received no additional remuneration.

23. The fees in respect of Stella Manzie's role as a non-executive were paid to Coventry City Council. In addition to being a non-executive member of the Treasury Board, Stella Manzie was also a member of the Group Resource Audit Committee for which Coventry City Council received an additional £2.5k - £5k.

24. In addition to being a non-executive member of the Treasury Board, Sir William Sargent was also chairman of the Group Resource Audit Committee for which he received remuneration of £2.5k - £5k.

25. Sir David Varney stepped down as a non-executive member of the Treasury Board in July 2007. Since 22 March 2007 he had also led a review into how current and future tax policy, including the tax changes announced in the Budget, can support the sustainable growth of businesses and long-term investment in Northern Ireland. The review was published on 17 December 2007. In his role as a non-executive director and for his work on the review he did not receive any remuneration.

Nicholas Macpherson
Permanent Secretary
15 July 2008

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

I certify that I have audited the financial statements of HM Treasury for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the HM Treasury Resource Accounts 2007-08, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.
My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary and the Statement of Treasury Group Compliance with Corporate Governance Code of Best Practice included in the HM Treasury Resource Accounts 2007-08, is consistent with the financial statements. I also report 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the HM Treasury Resource Accounts 2007-08 and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management Commentary and the Statement of Treasury Group Compliance with Corporate Governance Code of Best Practice included within the HM Treasury Resource Accounts 2007-08, is consistent with the financial statements.

Opinion on Regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

16 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Statement of Parliamentary Supply
for the year ended 31 March 2008

		Estimate			Outturn			2007-08 Net Total Outturn compared with Estimate	2006-07 Outturn
	Note	Gross expend.	A-in-A	Net total	Gross expend.	A-in-A	Net total	saving/ (excess)	Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	3	266,847	(26,285)	240,562	255,337	(24,767)	230,570	9,992	207,821
Request for Resources 2	3	55,074	-	55,074	43,689	-	43,689	11,385	44,153
Request for Resources 3	3	49,228	(13,599)	35,629	46,228	(13,599)	32,629	3,000	45,028
Total Resources	**3**	**371,149**	**(39,884)**	**331,265**	**345,254**	**(38,366)**	**306,888**	**24,377**	**297,002**
Non-Operating Cost A-in-A				-			-	-	-
Net Cash Requirement	**5**			**258,373**			**207,309**	**51,064**	**211,820**

Summary of Income Payable to the Consolidated Fund

In addition to Appropriations in Aid (A-in-A), the following income relates to the Department and is payable to the Consolidated Fund:

	Forecast 2007-08		Outturn 2007-08	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Total (Note 9.2)	64,389	*64,389*	144,297	*138,728*

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.

Explanations of variances between Estimate and outturn are given in Note 3.

The notes on pages 47 to 84 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2008

	Note	2007-08 Core Treasury £000	2007-08 Group Total £000	2006-07 (Restated) Core Treasury £000	2006-07 (Restated) Group Total £000
Administration costs					
Staff costs	6.1	68,575	94,003	66,187	98,690
Other administration costs	7	80,225	102,592	48,343	86,365
Gross administration costs before exceptional items		**148,800**	**196,595**	**114,530**	**185,055**
Operating income	9	(18,767)	(36,750)	(6,737)	(25,752)
Net administration costs before exceptional items		**130,033**	**159,845**	**107,793**	**159,303**
Exceptional item – loss on sale of Trevelyan House	7	3,385	3,385	-	-
Exceptional item – loss on sale of Thistle Street	7	372	372	-	-
Exceptional item – building revaluation	7	(14,957)	(14,957)	-	-
Net administration costs after exceptional items		**118,833**	**148,645**	**107,793**	**159,303**
Programme costs					
Request for Resources 1: Core Treasury and DMO					
Expenditure	8	101,848	104,640	94,620	96,812
Less: income	8 & 9	(132,676)	(134,056)	(121,406)	(122,756)
		(30,828)	**(29,416)**	**(26,786)**	**(25,944)**
Request for Resources 2: Coinage					
Expenditure	8	43,688	43,688	45,652	45,652
Less: income	8 & 9	(4,877)	(4,877)	(1,499)	(1,499)
		38,811	**38,811**	**4,153**	**44,153**
Request for Resources 3: OGC					
Expenditure	8	-	1,231	-	1,904
Exceptional item: Restructuring exit costs	8	-	10,300	-	-
Less: income	8 & 9	-	(1,919)	-	(1,964)
		-	**9,612**	**-**	**(60)**
Expenditure outside Supply process					
Banking and gilts registration services	3.3& 8	11,358	11,358	12,025	12,025
Net programme costs		**19,341**	**30,365**	**29,392**	**30,174**
Total net operating costs		**138,174**	**179,010**	**137,185**	**189,477**

Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	Note	2007-08 Core Treasury £000	2007-08 Group Total £000	2006-07 Core Treasury £000	2006-07 Group Total £000
Net (loss)/gain on revaluation of fixed investments	13	435,890	435,890	128,045	128,045
Other recognised (losses)/gains for the financial year		**435,890**	**435,890**	**128,045**	**128,045**

The notes on pages 47 to 84 form part of these accounts.

Balance Sheet
as at 31 March 2008

	Note	2008 Core Treasury £000	2008 Group £000	2007 Core Treasury £000	2007 Group £000
Fixed assets					
Tangible assets	11	113,378	113,958	97,737	107,873
Intangible assets	12	1,838	2,743	245	2,577
Investments	13	21,621,959	21,622,309	1,886,070	1,889,136
Total fixed assets		**21,737,175**	**21,739,010**	**1,984,052**	**1,999,586**
Debtors: falling due after more than one year	15	3	12	6,975	7,049
Current assets					
Finished coinage and scrap metal stocks (non-Supply)	14	8,045	8,045	200	200
Debtors: due within one year	15	105,001	110,074	89,813	95,600
Cash at bank and in hand	16	1,555	3,504	4,308	8,558
Total current assets		**114,601**	**121,623**	**94,321**	**104,358**
Creditors: amounts falling due within one year	17	(128,420)	(137,776)	(111,210)	(125,321)
Net current liabilities		**(13,819)**	**(16,153)**	(16,889)	(20,963)
Total assets less current liabilities		**21,723,359**	**21,722,869**	**1,974,138**	**1,985,672**
Creditors: amounts falling due after more than one year	17	(158,044)	(158,211)	(152,443)	(152,610)
Provisions for liabilities and charges	19	(19,302,350)	(19,318,062)	(2,892)	(15,546)
Net assets		**2,262,965**	**2,246,596**	**1,818,803**	**1,817,516**
Taxpayers' equity					
General fund	20	1,254,044	1,237,587	1,245,634	1,241,230
Revaluation reserve	21	1,008,921	1,009,009	573,169	576,286
		2,262,965	**2,246,596**	**1,818,803**	**1,817,516**

Nicholas Macpherson
Permanent Secretary
15 July 2008

The notes on pages 47 to 84 form part of these accounts.

Consolidated Cash Flow Statement
for the year ended 31 March 2008

	2007-08 £000	2006-07 (Restated) £000
Net cash outflow from operating activities	(68,959)	(118,299)
Cash inflow from capital expenditure and financial investment	1,992	1,717
Payments of amounts due to the Consolidated Fund	(141,425)	(92,065)
Financing	203,338	210,149
Increase/(decrease) in cash in the period	**(5,054)**	**1,502**

Notes to the Consolidated Cash Flow Statement

Reconciliation of operating cost to operating cash flows	Note	£000	£000
Net operating cost	10	179,010	189,477
Transfer from Cabinet Office in respect of PMDU	2	-	(4,643)
Adjust for non-supply costs	3.3 & 8	(11,358)	(12,025)
Adjust for non-cash transactions	8.1	(98,678)	(97,749)
Changes in working capital other than cash	18	3,753	44,254
Movement from creditors to provisions	19	(360)	-
Indexation of PFI creditor		(7,394)	(3,588)
Use of provisions	19	3,986	2,573
Net cash outflow from operating activities		**68,959**	**118,299**

Analysis of capital expenditure and financial investment	Note	£000	£000
Cash paid for tangible fixed assets		1,786	167
Cash paid for intangible fixed assets		1,283	1,303
Proceeds of disposals of fixed assets	9.3	(2,345)	(8)
Proceeds of disposals of surplus freehold property		-	-
(Repayments) from other bodies	9.3	(2,716)	(3,179)
Net cash outflow/(inflow) from investing activities		**(1,992)**	**(1,717)**

Capital expenditure and financial investment by Request for Resources	Capital Expenditure £000	Loans etc £000	A-in-A £000	Net total £000
Request for Resources 1	3,302	-	-	3,302
Request for Resources 2	-	-	-	-
Request for Resources 3	-	-	-	-
Net movement in debtors/creditors	(230)	-	-	(230)
Total 2007-08	**3,072**	**-**	**-**	**3,072**
Total 2006-07	3,296	-	-	3,296

Analysis of financing	Note	2007-08 £000	2006-07 £000
From the Consolidated Fund (Supply): current year	20	205,257	211,279
Capital element of payments in respect of on balance sheet PFI contracts	17	(1,613)	(1,436)
Advance from the Contingencies Fund	16.1	(306)	306
Net cash inflow from financing		**203,338**	**210,149**

The notes on pages 47 to 84 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Objective
for the year ended 31 March 2008

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.***

			2007-08			**2006-07 (Restated)**
Objectives:	Gross Expenditure £000	Income £000	Net £000	Gross Expenditure £000	Income £000	Net £000
I	147,767	(48,327)	99,440	141,758	(53,150)	88,608
II	13,723	(108)	13,615	15,156	(151)	15,005
III	78,958	(103,022)	(24,064)	52,510	(77,389)	(24,879)
IV	11,604	(76)	11,528	11,643	(151)	11,492
V	12,849	(240)	12,609	12,412	(262)	12,150
VI	72,677	(21,376)	51,301	88,672	(20,025)	68,647
VII	12,867	(306)	12,561	11,541	(40)	11,501
VIII	2,168	(247)	1,921	3,012	(803)	2,209
Other Costs	4,899	(3,900)	999	4,744	-	4,744
Exceptional items	(900)	-	(900)	-	-	-
Net operating cost	**356,612**	**(177,602)**	**179,010**	**341,448**	**(151,971)**	**189,477**
Reconciliation to Resource Budget outturn						
Per Table A1 in Annex A of the Annual Report						
Net operating cost, as above			179,010			189,477
Less non-budget income						
Pool Re (Objective III)			37,286			36,292
Other (Objective III)			-			323
Add non-voted expenditure:						
Civil List, net (other)			8,259			8,259
Royal Household Pensions: (other)			1,896			2,006
Resource Budget outturn			**226,451**			**236,357**

The department's strategic objectives were as follows:

Objective I	Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability;
Objective II	Increase the productivity of the economy and expand economic and employment opportunities for all;
Objective III	Promote efficient, stable and fair financial markets, for their users and the economy;
Objective IV	Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest;
Objective V	Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable;
Objective VI	Improve the quality and cost-effectiveness of public services;
Objective VII	Achieve world class standards of financial management in government;
Objective VIII	Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies; and
Other costs	Other resources required not falling under HM Treasury's eight main objectives.

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 Administration costs.

Items not falling under one of the Objectives include the salary of the Prime Minister and the Government Whips.

The costs allocated to Objective I are net coinage costs, including the cost of capital charges on the Royal Mint (together £43.7m in 2007-08 and £44.2m in 2006-07), half of the cost of investment in the Bank of England (£6.23m in 2007-08 and £0.4m in 2006-07), and banking and gilts registration services (£8.6m in 2007-08 and £12.0m in 2006-07), as well as core Treasury policy team costs and apportioned central costs.

Objective III includes the other half of the net cost of investment in the Bank of England (£6.23m in 2007-08 and £0.4m in 2006-07).

The direct costs of the DMO (£7.7m in 2007-08 and £5.3m in 2006-07), and OGC (£14.8m in 2007-08 and £23.6m in 2006-07) are attributable to Objectives I and VI respectively.

Exceptional items include the revaluation of 1 Horse Guards, the disposal of buildings within the group, and exit costs associated with the restructure of HM Treasury and OGC.

Details of programme grants and other current expenditure are given in note 22.

The notes on pages 47 to 84 form part of these accounts.

NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the Net Cash Requirement. The consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

International Financial Reporting Standards

The Government has indicated its intention that, from 2009-10, departments' financial statements should be prepared using International Financial Reporting Standards (IFRS), adapted as relevant for the public sector. It is our view that the substitution of current IFRS for UK GAAP as the basis of the accounting policies applied in the Resource Accounts of HM Treasury would not materially change the overall view of the Department's operations, after the adoption of the revised IFRS-based financial instrument standards, FRS 25 and 26, in 2008-09 FReM.

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 at their value to the business by reference to their current costs.

1.2 Basis of Consolidation

These accounts comprise a consolidation of the core department (core Treasury), its supply financed agency the Debt Management Office (DMO) and the Office of Government Commerce (OGC). The DMO produces and publishes its own accounts. The accounts of the Royal Mint and OGCbuying.solutions (Trading Funds), the Bank of England (incorporated by Royal Charter) and Northern Rock are not consolidated. Financial information about them may be obtained from their separately published annual reports and accounts.

HM Treasury 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 the Department'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 Valuation of Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are carried at valuation. The threshold for capitalising fixed assets is £5,000 except for antiques where no threshold is set.

In line with the 2007-08 FReM, non-property assets with a low value and/or short useful economic life, are held at depreciated historical cost as a proxy for current value. Furniture and equipment, IT equipment and software licences for which the value is low and/or the useful economic life is short are stated at the depreciated current cost brought forward at 1 April 2006 for assets acquired before that date, and at depreciated historical cost for assets acquired subsequently.

For land and buildings, the 2007-08 FReM requires departments to hold land and buildings at valuation, following the most appropriate of the valuation methods set out in FRS 15. Accordingly, land and buildings are professionally valued, at existing use, every five years or when material changes are known to have arisen and are subject to an interim professional review three years after each full valuation.

Antiques in use are stated at estimated market value as at 31 March 2008.

Assets under construction are shown at accumulated cost. Depreciation does not commence until the asset is completed and brought into service.

1.4 Depreciation

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
Other plant and machinery	10 to 15 years

Depreciation is charged in the month following acquisition up to the month prior to disposal. Freehold land and antiques are not depreciated.

1.5 Development Expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the FReM, 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.

1.6 Investments

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

- Public dividend stock held within the Royal Mint and OGCbuying.solutions and bonds held in Partnerships UK are shown as at nominal value;
- The investment in the Bank of England and the equity investment in Partnerships UK are shown at their net asset value per the published accounts of the investee bodies;
- The temporary public ownership of Northern Rock is shown at cost, being nil value, whilst the Department awaits the outcome of a full professional valuation (see note 29); and
- The asset arising from the recognition of a provision to refinance the Bank of England loan to Northern Rock is shown at the value it is estimated to be at the future novation date (see note 29.1).

1.7 Stocks

Following the implementation of a new Service Level Agreement with the Royal Mint covering 2007-08 and 2008-09, the Treasury holds undistributed, finished coins as stock in its balance sheet. The stock is controlled by the Mint and held at their site in Llantrisant, Wales. The stock is valued at production cost, based on direct materials, labour and production overheads. Additionally, returned scrap and obsolete coinage continues to belong to the Treasury and is shown in the balance sheet at net realisable value as scrap metal, prior to being sold on (see notes 14 and 25.1).

1.8 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 ("not appropriated-in-aid"). Income from Pool Re is payable to HM Treasury out of surplus funds recognised after a lapsed period.

1.9 Administration and Programme Expenditure

The Operating Cost Statement (OCS) is analysed between administration and programme costs. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in Public Expenditure System paper PES(2004)10. Net administration costs reflect the costs of running the Department. 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.

1.10 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 real rate set by HM Treasury, currently 3.5% (2006-07: 3.5%) on the average carrying amount of all assets less liabilities except for:

- where individual rates of return have been set for investments in the Bank of England (4.94%) (2006-07: 4.94%), the Royal Mint (7.2%) (2006-07: 3.5%) and OGCbuying.solutions (6.5%) (2006-07: 6.5%) 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;
- loan investments with a higher coupon rate of return such as the Partnership UK loan stock (4.8%) (2006-07: 4.8%);
- donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General where the charge is nil; and
- 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.

1.11 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.

1.12 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 6. 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.

1.13 Early Departure Costs

The Department is required to meet the additional costs 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. 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 2.2% (2006-07: 2.2%) discount rate in line with HM Treasury guidance. 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.

1.14 Surplus Property for Disposal

Leases on vacant leasehold properties are regarded as onerous contracts under Financial Reporting Standard (FRS) 12. Therefore, 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 2.2% (2006-07: 2.2%).

1.15 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 FReM. Where the balance of risk and rewards of ownership of the PFI property are borne by the Department, the Department includes the asset on its balance sheet for the fair value of the property, with the associated 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.

1.16 Operating Leases

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

1.17 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 but which have been reported to Parliament in accordance with the requirements of Managing Public Money. These comprise items over £250,000 (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.

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 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.

1.18 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. TRANSFER OF FUNCTIONS FROM CABINET OFFICE

With effect from June 2007, responsibility for the Prime Minister's Delivery Unit (PMDU) transferred from the Cabinet Office to HM Treasury, resulting in 33 full time equivalent posts being transferred. Following the disclosure requirements of FRS 6, the results, cash flows and assets related to transferred activities have been included from the start of the financial year. Prior year comparatives have been restated to include these costs (note 20).

The direct cost of the PMDU function transferred to Request for Resources 1 were:

	2007-08	**2006-07**
	£000	£000
Staff costs	2,646	3,388
Other admin costs	1,423	1,255
Total	**4,069**	**4,643**

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

3. ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

								2007-08	2006-07
	Admin	Other Current	Current Grant	Gross Resource expen-diture	Approp-riations in Aid (note 9)	Net Total Outturn	Net total Estimate	Net Total Outturn compared with Estimate	Net total Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1									
Departmental Expenditure Limit									
Core Treasury	152,558	3,862	-	156,420	(18,777)	137,643	143,436	5,793	109,844
DMO	13,097	2,792	-	15,889	(5,990)[24]	9,899	10,740	841	9,587
Parliamentary	-	-	3,305	3,305	-	3,305	3,305	-	3,060
Statistics Commission	-	-	1,160	1,160	-	1,160	1,656	496	1,350
Annually Managed Expenditure									
Investment in Bank of England	-	93,520	-	93,520	-	93,520	95,250	1,730	83,980
Impairment reversal	(14,957)	-	-	(14,957)	-	(14,957)	(13,825)	1,132	-
	150,698	**100,174**	**4,465**	**255,337**	**(24,767)**	**230,570**	**240,562**	**9,992**	**207,821**
Request for Resources 2									
Departmental Expenditure Limit									
UK Coinage: Manufacturing	-	15,676	-	15,676	-	15,676	18,478	2,802	42,571
UK Coinage: COC Stocks	-	45	-	45	-	45	103	58	-
UK Coinage: Revision campaign	-	-	-	-	-	-	600	600	-
Annually Managed Expenditure									
UK Coinage: Metal	-	23,704	-	23,704	-	23,704	31,000	7,296	-
UK Coinage: Cost of Capital Charge	-	98	-	98	-	98	293	195	1,582
UK Coinage: Investment in Royal Mint	-	4,166	-	4,166	-	4,166	4,600	434	-
	-	**43,689**	**-**	**43,689**	**-**	**43,689**	**55,074**	**11,385**	**44,153**
Request for Resources 3									
Departmental Expenditure Limit									
OGC	34,697	11,531	-	46,228	(13,599)	32,629	35,629	3,000	**45,028**
Resource Outturn	**185,395**	**155,394**	**4,465**	**345,254**	**(38,366)**	**306,888**	**331,265**	**24,377**	**297,002**
Banking and gilts registration services (expenditure outside Supply process (note 3.3))						11,358			12,025
Operating income payable to the Consolidated Fund (note 9)						(139,236)			(124,193)
Transfer of Function in respect of PMDU (note 2)						-			4,643
Net Operating Cost						**179,010**			**189,477**

[24] Appropriation in Aid limits are voted on a Request for Resources (RfR) basis. Core Treasury and DMO both request resources under RfR1 and as Core Treasury received less income than expected, under that RfR, DMO were able to utilise some of Core Treasury's unused provision, by appropriating in aid additional income of £480k. Overall, the RfR1 total for income appropriated in aid was £24,767k, within an allowed voted limit of £26,285k.

3.1 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.

3.2 Explanation of Variances Between Estimate and Outturn

The Treasury's Net Total Estimate for 2007-08 corresponds to the overall voted funding allocated in Spending Review 2004. There has been no draw down of additional funding from End Year Flexibility during the year. Outturn for the year was £306.9 million, up slightly from £297 million in 2006-07.

Compared to the Revised Spring Supplementary Estimate, Request for Resources 1 (Core Treasury and DMO) underspent by £10.0 million, or 4.3%. This compares to a larger underspend of £19.2m, or 8.4% in 2006-07. £5.8m of the 2007-08 underspend relates to Core Treasury of which £6.2m was an underspend on consultancy costs where forecasts included contingent costs which did not materialise or otherwise proved overcautious. £1.7 million relates to a reduction in cost of capital on the Treasury's investment in the Bank of England. Finally, an upward revaluation of the building in 1 Horse Guards Road resulted in a surplus over forecast of £1.1 million.

Request for Resources 2 (Coinage) Outturn was underspent by £11.4 million or 20.7%, compared to £6.1m or 12.1% during 2006-07. £7.9 million of this underspend relates to the metal cost element (classified as AME) and is due to metal prices having plateaued compared to steeper rises in 2006-07 and previous years. The remaining £3.5 million underspend relates to the manufacturing cost element (classified as DEL) and is due to demand for coinage being less than forecast (see the Management commentary, page 3, for more detail) and also due to moving to a new accounting treatment (see notes 1.7, 14 and 25.1 for a detailed explanation of the new Service Level Agreement). The provision included within the Revised Spring Supplementary Estimate for £0.6m for the UK Coinage Revision Campaign was not utilised as it was subsequently decided that the campaign should be financed directly by the Royal Mint.

Request for Resources 3 Estimate was £35.6m and Outturn £32.6m, an underspend of £3.0 million or 8.4%. The major elements of this underspend were related to consultancy, pay and early departure costs. These underspends were the result of decisions on implementation of the changes announced in "Transforming Government Procurement", which included a strategic review in the second half of 2007-08. The recommendations of the strategic review were agreed in March 2008 and are being implemented in the SR07 period.

3.3 Expenditure Outside Supply Process

This relates to payments to Computershare Investor Services plc for management of the gilts register, which are paid from the National Loans Fund (NLF), and to the Bank of England for managing the Exchange Equalisation Account (EEA), which are paid from the EEA. These costs are also included within the NLF accounts and EEA accounts, respectively, for 2007-08.

4. RECONCILIATION OF OUTTURN TO NET OPERATING COSTS AND AGAINST ADMINISTRATION BUDGET

4.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note			2007-08	2006-07
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
		£000	£000	£000	£000
Net Resource Outturn	3	306,888	331,265	24,377	297,002
Non-supply income (CFERs)	9	(139,236)	(63,048)	76,188	(124,193)
Non-supply Expenditure	3	11,358	24,479	13,121	12,025
Transfer of function in respect of PMDU	2	-	-	-	4,643
Net operating cost		**179,010**	**292,696**	**113,686**	**189,477**

The Estimate figure (£24,479k) for non-supply expenditure includes Civil List (£8,259k) and Royal Household Pensions (£2,000k), which are not reported in the Resource Accounts.

4.2 Outturn Against Final Administration Budget

	Note		2007-08	2006-07
		Budget	Outturn	Outturn
		£000	£000	£000
Gross Administration Budget	3	207,236	185,395	180,061
Income allowable against the Administration Budget	9	(36,905)	(35,507)	(22,345)
Net outturn against final Administration Budget		**170,331**	**149,888**	**157,716**

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

5. RECONCILIATION OF RESOURCES TO NET CASH REQUIREMENT

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000
Resource Outturn	3	331,265	306,888	24,377
Capital:				
Acquisition of fixed assets – resources	11 & 12	7,200	3,301	3,899
Accrual adjustments				
Non-cash items	7 & 8	(93,880)	(98,678)	4,798
Changes in working capital other than cash	18	-	(2,047)	2,047
Change in PFI creditor	24.2	-	(5,781)	5,781
Use of provision	19	13,788	3,986	9,802
Movement from creditors to provisions	19	-	(360)	360
Net Cash Requirement		**258,373**	**207,309**	**51,064**

6. STAFF NUMBERS AND COSTS

6.1 Analysis of Total Costs Over Categories

	Ministers	Special Advisors	Permanent staff	Others	2007-08 Total	2006-07 (Restated) Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,665	341	64,172	8,186	74,364	77,809
Social Security costs	164	35	5,590	-	5,789	6,482
Other pension costs	-	58	13,792	-	13,850	14,399
Total costs	**1,829**	**434**	**83,554**	**8,186**	**94,003**	**98,690**
Less recoveries (income) in respect of outward secondments	-	-	(3,100)	-	(3,100)	(2,899)
Total net costs	**1,829**	**434**	**80,454**	**8,186**	**90,903**	**95,791**
Of which: Core Treasury						
Total costs	1,829	434	62,285	4,027	68,575	66,187
Less recoveries (income) in respect of outward secondments	-	-	(2,662)	-	(2,662)	(2,431)
Total net costs	**1,829**	**434**	**59,623**	**4,027**	**65,913**	**63,756**

The costs of Special Advisors include the Council of Economic Advisors.

In addition to the above, no staff costs (2006-07: £41k) have been charged to capital projects. Recoveries of £3,079k (2006-07: £2,899k) are shown as income in the operating cost statement.

6.2 Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HM Treasury is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £12,388k were payable to the PCSPS (2006-07: £13,695k) at one of four rates in the range 17.15 to 25.5 per cent (2006-07: 17.15 to 25.5 per cent) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised and the rates will be in the range between 17.1 and 26.5 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £137k (2006-07: £155k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £9k (2006-07: £11k), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £6k (2006-07: £13k). Contributions prepaid at that date were nil.

6.3 Ill Health Retirement

During 2007-08 one person (2006-07: two persons) retired early on ill-health grounds, resulting in additional accrued pension liabilities of £13k. The costs of such retirements are funded by normal contributions to the PCSPS.

6.4 Average Number of Persons Employed

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

	2007-08					2006-07 (Restated)
	Number					Number
Objective	Ministers	Special Advisers	Officials	Others	Total	Total
I. Low inflation & sound public finances	1.2	1.5	336.5	39.2	378.4	352.3
II. Productivity	0.5	0.6	153.9	5.4	160.4	184.2
III. Efficient, fair & stable financial markets	0.4	0.5	115.3	8.2	124.4	109.7
IV. Tax & incentives to work & save	0.4	0.5	148.8	2.9	152.6	164.6
V. EU & International	0.4	0.6	131.2	5.2	137.4	155.4
VI. Public Services	1.6	2.1	465	43.4	512.1	638.4
VII. Financial management in government	0.4	0.6	134	5.4	140.4	137.0
VIII. Environment	0.1	0.1	21.1	1.4	22.7	20.7
Staff Engaged on Capital Projects	-	-	-	-	-	-
Total	**5.0**	**6.5**	**1,505.8**	**111.1**	**1,628.4**	**1,762.4**
Of which						
Core Treasury	**5.0**	**6.5**	**1,167.4**	**72.9**	**1,251.8**	**1,228.9**

The staff numbers in this table include the transfer of 80 staff from OGC's Efficiency Team and corporate services to the core Treasury on 1st April 2007, plus the MOG transfer of 33 posts from Prime Minister's Delivery Unit in June 2007.

6.5 Additional Ministerial Salaries Borne by HM Treasury

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

Official title	Name	2007-08 Salaries £000	2006-07 Salaries £000
Prime Minister	Tony Blair (till June 2007)	30 - 35	125 - 130
	Gordon Brown (from June 2007)	95 - 100	-
Chief Whip (Commons)	Geoff Hoon (from June 2007)	50 - 55	-
	Jacqui Smith (till June 2007)	25 - 30	60 - 65
	Hilary Armstrong (till May 2006)	-	15 - 20
Deputy Chief Whip (Commons)	Nicholas Brown (from June 2007)	30 - 35	-
	Robert Ainsworth (till June 2007)	10 - 15	35 - 40
Chief Whip (Lords)	Baroness Royall of Blaisdon (from June 2007)	20 - 35	-
	Lord Grocott (till June 2007)	100 - 105	120 - 125
Deputy Chief Whip (Lords)	Lord Davies of Oldham	110 - 115	105 - 110
Lords in waiting (6 posts, reducing to 5 in June 2007)		520 - 525	605 - 610
Government and Assistant Government Whips (14 posts, reducing to 13 in February 2008)		360 - 365	360 - 365

7. OTHER ADMINISTRATION COSTS

	2007-08		2006-07 (Restated)	
7.1 Summary	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Other administration costs	80,225	102,592	48,343	86,365
Exceptional item – building revaluation	(14,957)	(14,957)	-	-
Exceptional item – disposal of Trevelyan House	3,385	3,385	-	-
Exceptional item – disposal of Thistle Street, Edinburgh	372	372	-	-
Total	**69,025**	**91,392**	**48,343**	**86,365**
7.2 Detail				
Staff-related costs, including training and travel	7,307	10,486	6,444	10,493
Accommodation costs:				
Interest element of on-balance sheet PFI contract	11,439	11,439	11,164	11,164
Service element of on-balance sheet PFI contract	4,630	4,630	3,927	3,927
Indexation of liability on PFI contract	7,395	7,395	3,588	3,588
Other accommodation costs	8,575	10,438	3,941	9,289
Office services	14,749	18,542	8,226	14,329
Consultancy	17,652	24,147	4,097	10,068
Other Admin professional services	5,187	11,004	5,012	14,534
Non cash items				
Depreciation and similar charges:				
Depreciation and amortisation of fixed assets	4,846	5,893	2,585	6,552
Loss/(gain) on disposal of Trevelyan House	3,385	3,385	-	-
Loss/(gain) on disposal of Thistle Street, Edinburgh	372	372	-	-
Loss/(gain) on disposal of fixed assets	19	13	-	-
Loss/(gain) on revaluation of 1HGR building	(14,957)	(14,957)	-	-
Loss on impairment of fixed assets	-	-	1,387	1,387
Auditor's remuneration	128	150	115	137
Cost of capital	(2,399)	(2,509)	(2,667)	(2,366)
Provisions:				
Provided in year	660	897	483	3,184
Release of surplus provision	-	-	(17)	(17)
Unwinding of discount on provision	37	67	38	76
Increase in provision due to change in discount rate	-	-	-	-
Other	-	-	20	20
Total non cash items	**(7,909)**	**(6,689)**	**1,944**	**8,973**
Total	**69,025**	**91,392**	**48,343**	**86,365**
Other administration costs include:				
Hire of plant and machinery	62	99	87	189
Other operating leases	(300)	875	4	5,188
Research and development expenditure	118	150	-	50

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

8. NET PROGRAMME COSTS

	2007-08 Core Treasury £000	2007-08 Group £000	2006-07 Core Treasury £000	2006-07 Group £000
Request for Resources 1				
Current grants	4,465	4,465	4,410	4,410
Cost of capital (non cash)	94,586	94,586	84,950	84,950
Loss on disposal of fixed assets (non cash)	-	-	74	74
Other current expenditure	2,797	5,589	4,644	6,836
Provisions: Provided in year (non cash)	-	-	542	542
	101,848	**104,640**	**94,620**	**96,812**
Request for Resources 2				
Cost of capital (non cash)	4,308	4,308	1,582	1,582
Other current expenditure	39,380	39,380	44,070	44,070
	43,688	**43,688**	**45,652**	**45,652**
Request for Resources 3				
Efficiency Challenge Fund Expenditure	-	-	-	(26)
Cost of capital (non cash)	-	1,295	-	1,389
Transfer from leasehold property provision (non cash)	-	321	-	(106)
Transfer to specific dilapidations & legal provision (non cash)	-	(650)	-	(125)
Unwinding of discount on provisions (non cash)	-	142	-	490
Other current expenditure	-	123	-	282
Exceptional item: Restructuring exit costs (cash element)	-	4,935	-	-
Exceptional item: Restructuring exit costs (non cash)	-	5,365	-	-
	-	**11,531**	**-**	**1,904**
Non-supply - Banking and gilts registration services (note 3.3)	**11,358**	**11,358**	**12,025**	**12,025**
Sub total programme costs	**156,894**	**171,217**	**152,297**	**156,393**
Less programme income				
Request for Resources 1 - HM Treasury (note 9)	(132,676)	(134,056)	(121,406)	(122,756)
Request for Resources 2 - UK Coinage (note 9)	(4,877)	(4,877)	(1,499)	(1,499)
Request for Resources 3 – OGC (note 9)	-	(1,919)	-	(1,964)
	(137,553)	**(140,852)**	**(122,905)**	**(126,219)**
Net Programme Costs	**19,341**	**30,365**	**29,392**	**30,174**

8.1 Summary of Non Cash Transactions

	2007-08 Core Treasury £000	2007-08 Group £000	2006-07 Core Treasury £000	2006-07 Group £000
Administration costs non cash items (note 7)	(7,909)	(6,689)	1,944	8,973
Programme costs non cash items (note 8)	98,894	105,367	87,148	88,796
Total non-cash transactions (cash flow statement and note 5)	**90,985**	**98,678**	**89,092**	**97,769**

9. INCOME AND APPROPRIATIONS IN AID

Operating income analysed by activities:

	2007-08			2006-07 (Restated)
	Appropriated in Aid	Payable to Consolidated Fund	Income included in OCS	Income included in OCS
	£000	£000	£000	£000
Administration income				
Core Treasury	18,767	-	18,767	6,737
DMO	4,610	-	4,610	5,493
OGC	12,130	1,243	13,373	13,522
	35,507	**1,243**	**36,750**	**25,752**
Programme income				
Request for Resources 1				
Pool Re insurance premiums (note 9.1)	-	37,286	37,286	36,310
Bank of England dividend	-	81,053	81,053	83,100
Other current programme income	10	11,480	11,490	1,247
Other dividends and interest	-	2,847	2,847	749
DMO	1,380	-	1,380	1,350
	1,390	**132,666**	**134,056**	**122,756**
Request for Resources 2				
Sale of coinage scrap metal	-	927	927	1,499
Royal Mint Dividend	-	3,900	3,900	-
Other Current income	-	50	50	-
	-	**4,877**	**4,877**	**1,499**
Request for Resources 3				
Residual Estate	-	-	-	267
Other income	1,469	450	1,919	1,697
	1,469	**450**	**1,919**	**1,964**
Department total operating income	**38,366**	**139,236**	**177,602**	**151,971**

9.1 Pool Re and Pool Re Nuclear

Income from Pool Re and Pool Re Nuclear 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 and Pool Re Nuclear pay a premium to the Treasury, subject to a threshold level of funds.

9.2 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 2007-08		**Outturn 2007-08**
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A-in-A	-	-	2,479	*2,479*
Other operating income and receipts not classified as A-in-A	63,048	*63,048*	136,757	*131,188*
Sub total	63,048	*63,048*	139,236	*133,667*
Non-operating income and receipts – excess A-in-A	-	-	5,061	*5,061*
Other non-operating income and receipts not classified as A-in-A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	1,341	*1,341*	-	-
Total income payable to the Consolidated Fund	**64,389**	***64,389***	**144,297**	***138,728***

The forecast for Consolidated Fund income in the Spring Supplementary Estimate omitted, in error, an additional £10million in respect of the Bank of England dividend and £37million in respect of Pool Re insurance premiums which had been accrued at that time. Subsequent to the Spring Supplementary Estimate, there was a further tranche of Bank of England dividend income of £20 million and £11 million of Northern Rock arrangement fee and extension fee income which could not be appropriated in aid, due to timing and uncertainty regarding the amounts actually receivable. Finally, there was a further £5 million in non operating income relating to the repayment of a loan by OGC.bs and proceeds from the sale of Thistle Street, Edinburgh.

Furthermore, the forecast for Consolidated Fund receipts in the Spring Supplementary Estimate showed the expected income figure, in error, rather than taking account of the various timing differences that distinguish between the two.

9.3 Non-Operating Income – Excess A-in-A

	2007-08	**2006-07**
	£000	£000
Core Treasury:		
Proceeds on disposal of fixed assets	2,331	-
OGC:		
Repayments of loan principal	2,716	3,179
Proceeds on disposal of fixed assets	14	8
Group Total	**5,061**	**3,187**

10. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

		2007-08	**2006-07 (Restated)**
	Estimate	Outturn	Outturn
	£000	£000	£000
Spending Body			
Core Treasury	143,436	133,709	132,775
OGC	35,629	30,936	44,848
DMO	10,740	9,900	7,444
Parliamentary Bodies	3,305	3,305	3,060
Statistics Commission	1,656	1,160	1,350
Net Operating Cost	**194,766**	**179,010**	**189,477**

11. TANGIBLE FIXED ASSETS

11.1 Summary

	Land & Buildings £000	Leasehold Improvement £000	Plant & Machinery £000	Furniture & Equipment £000	IT Equipment £000	Antiques £000	Assets under construction £000	Total £000
Cost/valuation								
At 1 April 2007	108,438	908	1,263	1,685	9,065	1,649	-	123,008
Transfers	(9,507)	9,507	-	-	(1,208)	-	-	(1,208)
Additions	-	88	-	51	1,625	-	155	1,919
Impairments	-	-	-	-	-	-	-	-
Disposals	(3,061)	(5,559)	(961)	(535)	(74)	(1)	-	(10,191)
Gain on Revaluation charged to OCS	15,030	-	-	-	-	-	-	15,030
At 31 March 2008	**110,900**	**4,944**	**302**	**1,201**	**9,408**	**1,648**	**155**	**128,558**
Accumulated								
At 1 April 2007	6,416	514	361	711	7,132	-	-	15,134
Transfers	-	-	-	-	(440)	-	-	(440)
Charge in year	1,493	1,189	99	201	930	-	-	3,912
Impairments	-	-	-	-	-	-	-	-
Released on	(449)	(3,042)	(255)	(274)	(59)	-	-	(4,079)
Gain on	73	-	-	-	-	-	-	73
At 31 March 2008	**7,533**	**(1,339)**	**205**	**638**	**7,563**	**-**	**-**	**14,600**
Net book value 1 April 2007	102,022	394	902	974	1,933	1,649	-	107,874
Net book value 31 March 2008	**103,367**	**6,283**	**97**	**563**	**1,845**	**1,648**	**155**	**113,958**

Included in tangible fixed asset additions is £419k (2006-07: £286k) of capital expenditure accruals.

The net book value of tangible fixed assets comprises:

	Core Treasury £000	OGC £000	DMO £000	Group £000
1 April 2007	97,736	9,562	576	107,874
31 March 2008	**113,378**	**32**	**548**	**113,958**

11.2 Land and Buildings

11.2.1 1 Horse Guards Road

The accounting treatment adopted by HM Treasury is consistent with that of HM Revenue and Customs in respect of the joint arrangement for the land and building on site. 1 Horse Guards Road is financed via a PFI contract and was last subject to a full valuation, carried out by the Valuation Office Agency (VOA), in November 2004. In line with our accounting policy, an interim valuation, also carried out by the VOA, was completed in January 2008 on the basis of existing use, which established an overall value of £110.9m; of which £83.175m was considered attributable to the building and £27.725m to the land. The building was subject to a depreciation charge of £1.566m during the year.

11.2.2 Thistle Street

Thistle Street, Edinburgh was valued in January 2003 on the basis of existing use by independent surveyors, Gerald Eve, a member of RICS, in accordance with the RICS Appraisal and Valuation Manual. However, the property was vacated by the Department in October 2007 and it was subsequently sold for £2.35m, resulting in a loss of £0.37m. Although, the property was in the books of HMT, having been transferred from OGC to the new group shared services function prior to sale, the title to the freehold land and buildings had been held by the Department for Communities and Local Government.

11.3 Other Tangible Fixed Assets

11.3.1 Trevelyan House

During September and October 2007, OGC's London based staff relocated from Trevelyan House to 1 Horse Guards Road. The relocation will enable the lease on the Trevelyan House offices to be reassigned, saving the Group around £3.0 million a year in running costs, as well as facilitating a closer working relationship between OGC and HM Treasury. Co-location also provides the basis for further efficiencies, which include savings in network and IS support, facilities management costs and the exploration of other potentially shared functions. However, in order to secure these long term efficiencies, it was necessary to incur short-term losses on the early termination of the existing lease (£2,475k), the disposal of surplus furniture (£263k) and the disposal of surplus plant and machinery (£647k).

12. INTANGIBLE FIXED ASSETS – Software Licences

	2007-08 £000
Cost/valuation	
At 1 April 2007	9,471
Transfers	1,208
Additions	1,382
Impairments	-
Disposals	(2)
At 31 March 2008	**12,059**
Accumulated depreciation	
At 1 April 2007	6,896
Transfers	439
Charge in year	1,981
Impairments	-
Disposals	-
At 31 March 2008	**9,316**
Net book value 1 April 2007	2,575
Net book value 31 March 2008	**2,743**

Included in intangible fixed asset additions is £208k (2006-07: £109k) of capital expenditure accruals.

The net book value of intangible fixed assets comprises:

	Core Treasury £000	OGC £000	DMO £000	Group £000
1 April 2007	244	1,598	733	2,575
31 March 2008	**1,838**	**-**	**905**	**2,743**

13. INVESTMENTS

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

	At 1 April 2007 £000	Additions £000	Loan Repayments £000	Revaluation Reserve movement £000	At 31 March 2008 £000
Core Treasury					
Bank of England	1,860,000	-	-	433,000	2,293,000
Royal Mint	5,500	-	-	-	5,500
Partnerships UK Shares	4,975	-	-	2,890	7,865
Partnerships UK Loan Stock	15,594	-	-	-	15,594
Northern Rock Shares	-	-	-	-	-
Northern Rock Refinancing of Loan	-	19,300,000	-	-	19,300,000
Sub Total	**1,886,069**	**19,300,000**	**-**	**435,890**	**21,621,959**
Others					
OGCbuying.solutions Public Dividend Capital	350	-	-	-	350
OGCbuying.solutions Loan	2,716	-	(2,716)	-	-
Sub Total	**3,066**	**-**	**(2,716)**	**-**	**350**
Group total	**1,889,135**	**19,300,000**	**(2,716)**	**435,890**	**21,622,309**

13.1 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 £81,000k (2006-07: £83,100k, including the Treasury's share of last year's BCCI settlement) is payable. The associated cost of capital is £93,520k (2006-07: £83,890k).

Extracts from the accounts of the Banking Department of the Bank of England for the year ended 29 February 2008 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.

13.1 Bank of England (continued)

13.1.1 Extracts from the Banking Department's Accounts for the Year Ended 29 February

	2008 £ million	2007 £ million
Extracts from the income statement		
Profit before tax	197	191
Corporation tax net of tax relief on payment to HM Treasury	(36)	(25)
Profit for the year attributable to shareholder	161	166
Payment to HM Treasury (see note 9)	(81)	(83)
Profit retained for the year	**80**	**83**
Extracts from the balance sheet		
Assets		
Loans and advances to banks, the money market and customers	63,749	31,557
Financial assets at fair value through profit and loss	3,742	3,298
Available for sale securities	3,852	3,755
Other assets	1,545	753
Total assets	**72,888**	**39,363**
Liabilities		
Deposits by central banks, other banks and building societies	43,466	32,297
Financial liabilities at fair value through profit and loss	3,377	3,328
Other liabilities	23,752	1,878
Total liabilities	**70,595**	**37,503**
Total equity attributable to shareholder	**2,293**	**1,860**

Included in loans and advances are amounts due from Northern Rock of £24.3 billion. The following is an extract of the disclosures in the Bank of England's accounts regarding Northern Rock:

On 22 February 2008 Northern Rock plc, a company to which the Bank had extended loan facilities, was taken into public ownership and became a subsidiary of the Treasury Solicitor acting on behalf of HM Treasury.

The extended loan facilities outstanding with Northern Rock at 29 February 2008 totalled £24.3 billion and comprised:

- a reverse repurchase facility of £2.3 billion at a margin over Bank Rate secured on investment securities;
- facility A of £4.0 billion at a margin over Bank Rate secured primarily on residential mortgages, but also secured on all Northern Rock's other assets; and
- facility B which represents a secured working capital line with £18.0 billion outstanding at a margin over Bank Rate, after netting a deposit of £0.7 billion secured against all Northern Rock's assets.

As at 29 February no further drawings were permitted under the reverse repo facility or Facility A.

HM Treasury has indemnified the Bank against any loss relating to advances under the working capital line and any unrecovered expenses incurred from 9 October 2007, when the facilities were extended.

As at 29 February 2008 these facilities were due to be repaid on the 17 March 2008. This was subsequently extended to 30 April 2008. The existing Bank of England facilities were amended as of 30 April 2008 and remain on the same financial terms; however, the original Facility B (now B1) was frozen and at the same time a new committed secured revolving loan facility (B2) was made available to the company for contingency purposes until 2010, indemnified by HM Treasury on the same terms as Facility B. The amended facilities (including the committed reserve facility) are subject to appropriate clearance being obtained from the European Commission for state aid, and are secured against the assets of the company.

The Government intends to replace the funding from the Bank by the end of 2008.

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 29 February 2008 totalled £44.98 billion (2007: £38.45 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 29 February 2008 were £44.98 billion (2007: £38.45 billion), which included the Ways and Means Advance to the National Loans Fund of £8.17 billion (2007: £13.37 billion) and financial instruments issued by other banks.

The amount payable to HM Treasury (to the National Loans Fund) by the Issue Department for the year ended 29 February 2008 was £2.327 billion (2007: £1.653 billion). This 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.

13.2 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 FReM, HM Treasury's investment is shown at its historical cost. A dividend of £3,940k is payable for 2007-08 (2006-07: nil). The associated cost of capital is £4,160k (2006-07 £1,582k).

13.2.1 Extracts from the Royal Mint's Accounts for the Year Ended 31 March

	2008 £000	2007 £000
Extracts from the profit and loss account		
Turnover	131,779	120,865
Operating profit/(loss)	8,324	2,313
Net interest payable	(1,150)	(1,075)
Profit/(loss) for the year	**7,174**	**1,238**
Extracts from the balance sheet		
Fixed assets	33,654	36,927
Current assets	72,895	73,029
Liabilities due within one year	(39,497)	(44,376)
Liabilities due after more than one year	(8,845)	(10,063)
Net assets and shareholders funds	**58,207**	**55,517**

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

13.3 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 4.4% being allocated to the Scottish Executive. HM Treasury retains an equity interest of 44.6% of the shares.

As at 31 March 2008, the equity interest has been revalued to the net asset value per share of £1.77 compared to the value of £2.32 per share at 31 March 2007. The associated cost of capital charge is £318k (2006-07: £221k). A dividend of £2,005k was declared on the shares in 2006-07 due to the profit on the sale of its 50% shareholding in Partnerships for Health (PfH) to the Department of Health (DH). The total consideration received by PUK is £25.8m. PfH was a 50:50 joint venture between PUK and DH set up to deliver a material improvement in primary healthcare facilities and services particularly in deprived areas. The sale is consistent with PUK's public sector mission to focus resources on the development of new markets and initiatives, and then look to recycle such resources and capital to emerging and alternative opportunities. No such dividend is expected in relation to 2007-08.

The Treasury's holding of PUK Loan Stock is shown at nominal value. Interest at 4.8% (net), £749k (2006-07: £749k) is receivable on the loan stock. The associated cost of capital is £749k (2006-07: £749k).

13.3.1 Extracts from PUK's Accounts for the Year Ended 31 March

	2008 £000	2007 £000
Extracts from the profit and loss account		
Turnover: group and share of joint ventures	19,057	17,447
Profit on ordinary activities before taxation	(943)	11,372
Tax on profit of ordinary activities	(149)	223
Profit/(loss) for the year	**(1,092)**	**11,595**
Extracts from the balance sheet		
Fixed assets	14,218	9,527
Current assets	44,528	54,898
Creditors falling due within one year	(5,019)	(5,125)
Creditors falling due after more than one year	(36,074)	(36,075)
Net assets and shareholders funds	**17,653**	**23,225**

For further information, refer to the full PUK Report and Accounts, which can be viewed on the following website: www.partnershipsuk.org.uk/uploads/documents/PUK-2008-AR copy.pdf.

13.4 OGCbuying.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 FReM, OGC's investment is shown at its historical cost. A dividend of £1,669k is payable for the year ended 31 March 2008 (2007 £1,341k). The associated cost of capital is £1,791k (2006-07 £1,697k).

13.4.1 Extracts from OGCbuying.solutions' Accounts for the Year Ended 31 March

	2008	2007
	£000	£000
Extracts from the profit and loss account		
Turnover	75,479	70,530
Operating surplus	4,516	4,957
Net interest receivable	639	318
Surplus for the year	**5,155**	**5,275**
Dividend to be surrendered to OGC	(1,669)	(1,341)
Retained surplus	**3,486**	**3,934**
Extracts from the balance sheet		
Fixed assets	11,813	10,944
Current assets	25,193	25,024
Liabilities due within one year	(6,876)	(9,414)
Liabilities due after more than one year	(594)	(2,222)
Net assets and shareholders funds	**29,536**	**24,332**

For further information, refer to the full OGCb.s Report and Accounts, which can be viewed on the following website: www.ogcbuyingsolutions.gov.uk

13.5 Northern Rock plc

Northern Rock plc was brought into temporary public ownership on 22 February 2008. The shares were transferred to HM Treasury following the Northern Rock plc Transfer Order 2008.

In accordance with the FReM, the shares are being carried at historic cost. This is currently shown as nil, since the historic cost to HM Treasury will be dependent on the valuation of the company by the valuer appointed in accordance with the Northern Rock plc Compensation Scheme Order 2008. This valuation is pending (see note 29).

In addition to the equity investment in Northern Rock, HM Treasury has recognised a provision for the refinancing of the Bank of England loan to Northern Rock which is to take place in 2008. The amount of the loan at the date when the rights of the lender are to be novated from the Bank to the Treasury has been estimated at £19.3 billion. The accounting treatment of the provision has resulted in the Treasury recognising an asset of equal size in the balance sheet, though the loan remains with the Bank of England until the future novation date. For further details see note 29.

13.5.1 Extracts from Northern Rock plc's Accounts for the Year Ended 31 December 2007

	2007 £million
Extracts from the income statement	
Total income	722.4
Profit/(Loss) before taxation	(167.6)
Tax on profit of ordinary activities	(31.4)
Profit/(loss) for the year	**(199.0)**
Extracts from the balance sheet	
Total assets	109,321.0
Total liabilities	(106,621.7)
Total equity	2,699.3
Total non-shareholders' funds	(1,035.8)
Net assets	**1,663.5**

For further information, refer to the full Northern Rock plc Report and Accounts, which can be viewed on the following website: http://companyinfo.northernrock.co.uk/downloads/2007_annual_report.pdf.

14. STOCKS

		2008		**2007**
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Coinage scrap metal stocks	140	140	200	200
Finished coinage stocks awaiting issue	7,905	7,905	-	-
Total	**8,045**	**8,045**	**200**	**200**

Following the implementation of a new Service Level Agreement covering 2007-08 and 2008-09, the Treasury pays for coins upon production rather than upon issue, as was the case under the previous agreement. As part of this change, the Treasury purchased the existing stock of finished coins in November 2007. Production is in accordance with an agreed schedule and the Treasury holds the stock of finished coins in its balance sheet, as shown above. There is no change to the arrangements in respect of scrap metal (see notes 1.7 and 25.1).

15. DEBTORS

15.1 Analysis by Type

	2008		2007	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Amounts falling due within one year				
Other taxation and social security	2,018	1,925	1,422	1,651
Trade debtors	2,229	4,185	1,444	3,553
Deposits and advances	293	375	311	438
Other debtors	2	59	87	92
Prepayments and accrued income financed by Supply	4,385	7,456	3,076	6,393
Sub-total: Supply financed balances	**8,927**	**14,000**	**6,340**	**12,127**
Accrued income from the Bank of England due to the Consolidated Fund on receipt	81,000	81,000	83,100	83,100
Other accrued income due to the Consolidated Fund on receipt	15,074	15,074	373	373
	105,001	**110,074**	**89,813**	**95,600**
Amounts falling due after more than one year				
Due to the Consolidated Fund on receipt	-	-	6,972	6,972
Other debtors (Supply financed)	-	9	-	74
Prefunding for premature retirements (Supply financed)	3	3	3	3
	3	**12**	**6,975**	**7,049**
Total	**105,004**	**110,086**	**96,788**	**102,649**
Of which				
Due to the Consolidated Fund on receipt	**96,074**	**96,074**	**90,445**	**90,445**

The monies due to the Consolidated Fund on receipt, as shown above, do not include accrued income in respect of the scrap metal stock held as at 31 March, which accounts for the increase in corresponding amounts shown in Note 17.1.

The Bank of England dividend is normally paid in two instalments, on 5 April and 5 October. Accordingly, the first instalment for 2007-08 was £39.0m and was received on 5 April and surrendered to the Consolidated Fund on 9 April.

15.2 Intra Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008	**2007**	**2008**	**2007**
	£000	£000	£000	£000
Balances with other central government bodies	6,669	6,662	3	3
Balances with local authorities	87	149	-	-
Balances with NHS Trusts	-	4	-	-
Balances with public corporations and trading funds	482	441	-	-
Sub total: intra government balances	**7,238**	**7,256**	**3**	**3**
Balances with bodies external to government	95,457	88,344	7,388	7,046
Total Debtors at 31 March	**102,695**	**95,600**	**7,391**	**7,049**

16. CASH AT BANK AND IN HAND

	2008 Core Treasury £000	2008 Group £000	2007 Core Treasury £000	2007 Group £000
Balance at 1 April	4,308	8,558	3,720	7,056
Net change in cash balances - inflow/(outflow)	(2,753)	(5,054)	588	1,502
Balance at 31 March	**1,555**	**3,504**	**4,308**	**8,558**
The following balances were held at 31 March:				
Office of HM Paymaster General	1,555	3,171	4,308	8,386
Bank of England	-	332	-	171
Cash in hand	-	1	-	1
Balance at 31 March	**1,555**	**3,504**	**4,308**	**8,558**

16.1 Reconciliation of Net Cash Requirement to Increase/(Decrease) in Cash

	Note	2008 Group £000	2007 Group £000
Net Cash Requirement		(207,309)	(211,820)
From the Consolidated Fund (Supply) – current year		205,257	211,279
Amounts due to the Consolidated Fund received and not paid	17.1	2,540	5,236
Amounts due to the Consolidated Fund – received in a prior year and paid over		(5,236)	(3,499)
Advance from the Contingencies Fund		(306)	306
Increase/(decrease) in cash	16	**(5,054)**	**1,502**

The advance from the Contingencies Fund was to cover the resource cost of recruiting the Chair and non-executive directors of the Statistics Board until legislation was passed to enable the approval of such expenditure via an Estimates, as is usual. The Statistics and Registration Service Bill 2007 came into force on 26 July 2007 and the Contingencies Fund advance was duly repaid.

17. CREDITORS

17.1 Analysis by Type

Amounts falling due within one year		2008		2007
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Trade creditors	1,369	1,907	3,029	5,915
Other creditors	1,077	4,456	1,992	2,722
Other taxation and social security	1,982	2,283	1,421	2,139
Accruals and deferred income	23,688	26,991	9,968	13,332
Capital creditors	409	627	204	396
Subtotal: Supply financed working capital creditors	**28,525**	**36,264**	**16,614**	**24,504**
PFI contract (note 24.2)	1,793	1,793	1,613	1,613
Advance from the Contingencies Fund (note 16.1)	-	-	306	306
Amounts issued from the Consolidated Fund for Supply but not spent at year end	901	965	306	3,017
Consolidated Fund extra receipts received	987	2,540	1,726	5,236
Consolidated Fund extra receipts receivable	96,214	96,214	90,645	90,645
Total	**128,420**	**137,776**	**111,210**	**125,321**

The amount due for Consolidated Fund extra receipts receivable includes £nil (2006-07: £6,972k) in relation to amounts not expected to be received for more than one year.

Amounts falling due after more than one year		2008		2007
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
PFI contract (note 24.2)	158,044	158,044	152,443	152,443
Bond from sub-tenants	-	167	-	167
Total	**158,044**	**158,211**	**152,443**	**152,610**

17.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008 £000	**2007** £000	**2008** £000	**2007** £000
Balances with other central government bodies	103,414	104,892	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	28	-	-	-
Balances with public corporations and trading funds	1,665	535	-	-
Sub total: intra government balances	**105,107**	**105,427**	-	-
Balances with bodies external to government	32,669	19,894	158,211	152,610
Total Creditors at 31 March	**137,776**	**125,321**	**158,211**	**152,610**

18. RECONCILIATION OF WORKING CAPITAL MOVEMENTS FOR THE PURPOSE OF THE NET CASH REQUIREMENT AND THE CASH FLOW STATEMENT

	Note	2008 Group £000	2007 Group £000	Movement Group £000
Supply financed stock (finished coins)		7,905	-	7,905
Supply financed debtors due within one year	15	14,000	12,127	1,873
Supply financed debtors due after one year	15	12	77	(65)
Supply financed creditors due within one year	17	36,264	24,504	(11,760)
Supply financed creditors due after one year	17	167	167	-
Supply financed working capital movement for the Net Cash Requirement (note 5)				**(2,047)**
Stock movement		140	200	(60)
Debtors for income that will be surrenderable to the Consolidated Fund	15	96,074	90,445	5,629
Adjust for capital expenditure accruals	17	627	396	231
Working capital movement for the Cash Flow Statement				**3,753**

The stock movement of £60k (non-Supply) has been excluded from the working capital movement for the Net Cash Requirement but is included in the working capital movement for the Cash Flow Statement.

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Surplus leasehold property £000	Other £000	Early departure & pension commitments £000	Total £000
Core Treasury				
Balance at 1 April 2007	-	-	2,892	2,892
Provision established in year	-	19,300,000	-	19,300,000
Provision utilised in year	-	-	(1,239)	(1,239)
Transfer from/(to) operating cost statement	-	-	660	660
Unwinding of discount	-	-	37	37
At 31 March 2008	**-**	**19,300,000**	**2,350**	**19,302,350**
Others				
Balance at 1 April 2007	7,316	925	4,413	12,654
Provision utilised in year	(748)	-	(1,999)	(2,747)
Transfer from creditors	360	-	-	360
Transfer from operating cost statement	321	(650)	5,602	5,273
Unwinding of discount	142	-	30	172
At 31 March 2008	**7,391**	**275**	**8,046**	**15,712**
Group				
At 1 April 2007	**7,315**	**925**	**7,306**	**15,546**
At 31 March 2008	**7,391**	**19,300,275**	**10,396**	**19,318,062**

19.1 Maturity Analysis of Provisions

Amounts estimated to fall due:	Core Treasury £000	Group £000
Within one year	19,300,866	19,305,262
Between one and two years	431	4,030
Between two and five years	790	6,290
After five years	263	2,480
	19,302,350	**19,318,062**

19.2 Surplus Leasehold Property

OGC has responsibility for the disposal of 16 surplus leasehold properties on behalf of central civil government. The surplus leasehold property provision ensures that the future liabilities are provided for. These liabilities are assessed on the basis of the net present value of the future outgoings associated with the lease, discounted at 2.2% (2006-07 2.2%).

19.3 Other Provisions

This includes specific dilapidations, legal costs, our commitment to pay the Bank of England £19.3 billion in order to refinance the Northern Rock loan (see note 29) and other provisions. 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.

19.4 Early Departure & Pension Commitments

See statement of accounting policies - note 1.13.

20. GENERAL FUND

	2007-08		2006-07 (Restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
General Fund at 1 April	**1,245,634**	**1,241,230**	**1,244,340**	**1,243,907**
Prior Period Adjustment (note 2)	-	-	4,643	4,643
Adjusted opening balance	**1,245,634**	**1,241,230**	**1,248,983**	**1,248,550**
Net Parliamentary Funding				
Drawn down	179,026	205,257	167,459	211,279
Brought forward	-	-	-	-
Deemed	306	3,017	1,543	3,558
Consolidated Fund creditor for cash unspent	(901)	(965)	(306)	(3,017)
Sub-total: Net Cash Requirement		**207,309**		**211,820**
Contingencies Fund advance	-	-	306	306
Net Transfer from Operating Statement				
Net operating cost for the year	(138,174)	(179,010)	(137,186)	(189,477)
Income not appropriated in aid payable to the Consolidated Fund	(137,543)	(139,236)	(121,870)	(124,193)
Non–operating income not appropriated in aid payable to the Consolidated Fund (note 9.3)	(2,331)	(5,061)	-	(3,187)
Amounts due to the Contingencies Fund	-	-	(306)	(306)
Transfer of OGC fixed assets to GSS	8,073	-	-	-
Non-cash charges				
Notional audit fee	128	150	115	137
Cost of capital	96,495	97,680	83,865	85,555
Expenditure outside Supply process				
Banking and gilts registration services	11,358	11,358	12,025	12,025
Transfer from Revaluation Reserve (note 21)	3,167	3,167	-	-
Intra departmental consolidation adjustments	(11,194)	-	(8,994)	-
Balance at 31 March	**1,254,044**	**1,237,587**	**1,245,634**	**1,241,230**

21. REVALUATION RESERVE

	2007-08		2006-07	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Balance at 1 April	**573,169**	**576,286**	**445,124**	**448,241**
Arising on revaluation during the year (net)				
Tangible assets and investments	435,890	435,890	128,045	128,045
Leasehold adjustment	-	-	-	-
Transfer of OGC fixed assets to GSS	3,029	-	-	-
Transfer from/(to) General Fund in respect of realised element of revaluation reserve				
Tangible assets and investments	(3,167)	(3,167)	-	-
Balance at 31 March	**1,008,921**	**1,009,009**	**573,169**	**576,286**

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.

22. NOTES TO THE CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES

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

	Programme grants and other current gross expenditure		Capital employed	
	2007-08	**2006-07 (Restated)**	**2008**	**2007 (Restated)**
	£000	£000	£000	£000
I. Low inflation & sound public finances	107,866	107,115	1,099,249	927,947
II. Productivity	23	43	(8,261)	(9,500)
III. Efficient, fair & stable financial markets	47,241	43,989	1,194,848	923,151
IV. Tax & incentives to work & save	-	-	(7,011)	(8,728)
V. EU & International	19	43	(7,614)	(9,191)
VI. Public Services	2,398	2,067	(12,083)	4,891
VII. Financial management in government	-	-	(7,578)	(8,272)
VIII. Environment	-	-	(1,105)	(1,545)
Other Costs	3,370	3,136	1,516	(1,237)
Exceptional items	10,300	-	(5,365)	-
Operating costs/net assets	**171,217**	**156,393**	**2,246,596**	**1,817,516**

22.1 Programme Grants and Other Gross Expenditure

The main items arising in both years are the cost of capital charge in respect of the Treasury's investment in the Bank of England (split 50/50 between Objectives I and III); the cost of coinage (Objective I); and non-Voted expenditure on banking and gilts registration services (Objective I).

2007-08 totals also include exceptional items of £10.3m in respect of exit costs incurred during the restructure of HM Treasury and OGC.

22.2 Capital Employed

Where assets or liabilities relate to specific objectives they are attributed directly. For example, the £2.29 billion investment in the Bank of England, and the £81.1m dividend receivable from the Bank are attributed to Objectives I and III, and the £23.5m investment in Partnerships UK is attributed to Objective VI. The department's net liabilities are attributed to objectives in proportion to net administrative expenditure on those objectives.

23. CAPITAL COMMITMENTS

		2007-08		**2006-07**
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Contracted capital commitments for which no provision has been made	-	-	-	-
Approved but not contracted capital commitments	4,200	5,240	5,022	5,097

24. COMMITMENTS UNDER LEASES

24.1 Operating Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

		2008		2007
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Land and buildings:				
Expiry within one year	-	-	-	-
Expiry after 1 year but not more than 5 years	-	962	-	962
Expiry thereafter	-	112	-	4,080
	-	**1,074**	**-**	**5,042**
Other:				
Expiry within one year	-	1	507	507
Expiry after 1 year but not more than 5 years	831	831	-	38
Expiry thereafter	-	-	-	-
	831	**832**	**507**	**545**

24.2 Commitments Under the PFI Contract for 1 Horse Guards Road

Under FRS5 the asset is treated as an asset of HM Treasury. The asset is the provision of the serviced accommodation at 1 Horse Guards Road (see note 11.2.1).

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnerships (EP) in respect of Core HM Treasury's buildings at 1 Horse Guards Road. The substance of the contract is that the Department has a finance lease and that payments comprise two elements, imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

		2008		2007
The finance lease obligation under the on-balance sheet PFI contract comprises:	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Rentals due within one year	13,702	13,702	13,204	13,204
Rentals due between two to five years	76,652	76,652	56,620	56,620
Rentals due thereafter	622,203	622,203	548,498	548,498
	712,557	**712,557**	**618,322**	**618,322**
Less interest element	(367,100)	(367,100)	(334,408)	(334,408)
Less uplift for inflation on future unitary payments	(185,620)	(185,620)	(129,858)	(129,858)
	159,837	**159,837**	**154,056**	**154,056**

Charge to operating Cost Statement and Future Service Charge Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of the on-balance sheet PFI transactions was £4,630k (2006-07: £3,927k).

At 31 March 2008 the Department was committed to pay service charges during the next year:

		2008		2007
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Expiry within thirty to thirty five years	**4,438**	**4,438**	**4,276**	**4,276**

25. OTHER FINANCIAL COMMITMENTS

25.1 Manufacturing Coinage

The Treasury has committed to pay the Royal Mint for the metal and manufacturing costs of supplying new UK circulating coinage to meet the demand from banks and other distributors. The manufacturing price is agreed in a new Service Level Agreement covering 2007-08 and 2008-09, in which the price and volume of coins issued are expressed in terms of factored units, which attribute a weighting to each denomination of coin. Monthly payments are made for coins manufactured by the Mint, and coins produced but which have not yet been issued are held in stock in the Treasury's balance sheet. Production schedules under the SLA are approved by the Treasury on a quarterly basis. The Mint recharges the Treasury for the metal prices it incurs, which are variable in line with market prices.

For the year 2007-08 the Treasury purchased 1,485.9 million coins, translating to manufacturing charges for 1,794,478 million factored units at a cost of £17,100k including VAT. In 2008-09, the price per million factored units will increase by 1% and a discount applied which both compensates the Treasury for additional financing costs for owning the stock of circulating coins and reflects an equal share of the additional cost savings made by the Mint. Forecast production by the Mint is 1,439 million coins, subject to quarterly revisions. Metal prices for 2008-09 will be recharged to the Treasury by the Mint (see notes 1.7 and 14).

25.2 Reinsurance

The Treasury has made 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. In the event of a major terrorist event, the Treasury's liability could be significant, but unquantifiable in the short term.

25.3 Indemnity

The Treasury has indemnified the liquidators and receivers (the Officeholders) of Barlow Clowes for any costs above the amounts recovered from ongoing legal action, as detailed under post balance sheet events, in note 33.1.

26. FINANCIAL INSTRUMENTS

26.1 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; and
- the Exchange Equalisation Account.

26.2 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.

26.3 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.

26.4 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.

26.5 Credit Risk

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

26.6 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 17.1 and 24.2, and certain provisions described in note 19. 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 2.2%. 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.

26.7 Financial Assets

The Department's financial assets comprise its investments as set out in note 13, long term debtors as set out in note 15 and cash at bank and in hand as set out in note 16. 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.

26.8 Fair Value of Financial Assets

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

	Carrying value 31 March 2008 £000	Estimated fair value 31 March 2008 £000
Public Dividend Capital in Royal Mint (note 13)	5,500	58,207
Partnerships UK Loan Stock (note 13)	15,594	11,228 to 16,686
Northern Rock Refinancing of Loan (note 13)	19,300,000	19,300,000
Public Dividend Capital in OGCbuying.solutions (note 13)	350	29,734

Public Dividend Capital in the Royal Mint and OGCbuying.solutions is carried at historical cost in accordance with the FReM. 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 of the PUK loan stock for the purpose of this disclosure has been derived from the nominal value of £15.594m and the coupon interest rate of 6% at a range of yields from 5.5% to 8.0%. A yield of 5.5% implies a fair value of £16.686m, while a yield of 8.0% implies a fair value of £11.228m.

27. CONTINGENT LIABILITIES

27.1 Contingent Liabilities Disclosed Under FRS 12

27.1.1 Guarantees and Indemnities

In September, October and December 2007, HM Treasury announced guarantee arrangements in respect of retail and uncollateralised wholesale deposits in, and certain other uncollateralised and unsubordinated wholesale obligations of, Northern Rock . These guarantee arrangements, which will work alongside the Financial Services Compensation Scheme where appropriate, will remain in place as long as the current period of financial instability lasts and will be terminable only upon the giving of three months notice and were reported to Parliament in a Treasury Minute on 26 November 2007 and 18 December 2007. The business plan published by Northern Rock intends that the guarantee arrangements are released by 2011, however the viability of the plan's proposals for release of the guarantee arrangements will be kept under review. Further information on deposits in Northern Rock can be found in their annual accounts at the following website: http://companyinfo.northernrock.co.uk/downloads/2007_annual_report.pdf.

Following the provision of the liquidity facility in September 2007 (as described in note 29), the Bank of England made available additional facilities to Northern Rock in October 2007. The additional facilities are secured against the assets of Northern Rock . HM Treasury has indemnified the Bank of England in respect of any deficit faced by the Bank on these additional facilities after making all reasonable endeavours to recover its claims on the company and in respect of any liabilities sustained by the Bank in connection with the facilities granted to Northern Rock after 9 October 2007. This contingent liability was reported to Parliament in a Treasury Minute on 26 November 2007. At 31 December 2007, the balance on the loan from the Bank of England to Northern Rock was £26.9bn. This had reduced to £24.1bn at 31 March 2008. This contingent liability will remain in place until the novation of the loan from the Bank of England to HM Treasury (see post balance sheet events, at Note 33.3). Under the terms of the new loan arrangements agreed on 30 April 2008, a back-up liquidity facility will also be available to Northern Rock to enable it to meet the Financial Services Authority's requirements. This facility may remain in place beyond 2010 until sufficient alternative liquidity arrangements are in place. It will be secured against the assets of the company and will be drawn only in exceptional circumstances.

HM Treasury has confirmed to the Financial Services Authority its intention to take appropriate steps, should it prove necessary, to ensure that Northern Rock will continue to operate above the minimum regulatory capital requirements (reported to Parliament on 19 February 2008).

HM Treasury has guaranteed indemnities provided by Northern Rock for the directors appointed post temporary ownership against liabilities and losses in the course of their actions (reported to Parliament on 19 February 2008). Since 31 March 2008, a decision has been made in respect of the new Northern Rock directors to extend the guarantee, referred to above, to existing directors for the period of temporary public ownership only (reported to Parliament on 6 May 2008).

As at 31 March 2008, there had been no calls by indemnified parties on any of the guarantees and indemnities issued by HM Treasury which relate to Northern Rock. Up to the date of signature of these accounts (15 July 2008), no subsequent calls have been made on these guarantees and indemnities that would impact upon the position as at 31 March 2008.

27.1.2 Compensation Scheme

In accordance with section 5 of the Banking (Special Provisions) Act 2008 a Compensation Scheme has been established by the Northern Rock plc Compensation Scheme Order 2008. Under the Scheme an independent valuer will be appointed to assess what compensation, if any, is payable to former shareholders and others in accordance with valuation assumptions set out in the Act and the Compensation Scheme Order. It is not possible at this time to quantify the contingent liability as this is the responsibility of the independent valuer (reported to Parliament on 17 June 2008).

27.2 Contingent Liabilities Not Required to be Disclosed Under FRS 12 but Included for Parliamentary Reporting and Accountability

	2008 £000	2007 £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 Insurance Brokers' Registration Council (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

28. LOSSES AND SPECIAL PAYMENTS

The Group's administration costs include £8k arising from 25 claims waived or abandoned.

29. NORTHERN ROCK ADDITIONAL INFORMATION

29.1 Background

On 14 September 2007, following market rumours, Northern Rock plc brought forward a profit warning and announced that it had sought a liquidity facility from the Bank of England. On the same day, HM Treasury announced that the Chancellor of the Exchequer had authorised the Bank of England to provide a liquidity support facility to Northern Rock against appropriate collateral and at an interest rate premium. The provision of such support is governed by clear principles which are set out in the memorandum of understanding between the Tripartite Authorities (HM Treasury, the Bank of England and the Financial Services Authority): such support is exceptional and should be undertaken when there is genuine threat to the stability of the financial system in order to avoid a serious disturbance in the wider economy.

On 17 September 2007, following the run on deposits in Northern Rock, it was announced that HM Treasury would, should it prove necessary, put in place guarantee arrangements in respect of all the existing deposits in Northern Rock during the period of instability in the financial markets. These arrangements were extended on 20 and 21 September 2007 when it was confirmed that the guarantee arrangements would cover existing (and renewed) deposits, and existing and renewed unsecured unsubordinated wholesale funding.

On 9 October 2007 it was announced that the guarantee arrangements were extended to cover new retail deposits (ie those made after 19 September) and the Bank of England granted an additional facility to enable Northern Rock to pursue a range of strategic options and decide upon a course of resolution by February 2008. This additional facility was granted against an HM Treasury indemnity for the Bank of England. On 18 December 2007 the guarantee arrangements were further extended to include a number of other unsubordinated wholesale obligations.

On 17 February 2008, the Chancellor announced that the Government had completed its review of the private sector proposals to acquire Northern Rock. The Government concluded that none of the proposals received met the objectives of the Tripartite Authorities and that Northern Rock should be taken into a period of temporary public ownership. Subsequently the Banking (Special Provisions) Act 2008, the Northern Rock plc Transfer Order 2008 and the Northern Rock plc Compensation Scheme Order 2008 enabled the Government to acquire the shares of Northern Rock and provided for compensation to be determined by an independent valuer.

Northern Rock transferred into temporary public ownership on 22 February 2008. Details of the governance arrangements during the period of temporary public ownership are set out in a Framework Document, (see paragraph 28 of the Statement of Treasury Group Compliance with Corporate Governance Code of Good Practice, page 20, for further information). The Board of Northern Rock has set out its business plan for operating whilst under temporary public ownership. These include the repayment of the loans from the Bank of England and release of the Government guarantee arrangements over the next three to four years. The plan has been designed to prepare the bank for a return to private ownership as soon as practicable, although the achievement of this objective and the timing will be subject to a number of financial, operational and market risks. The business plan is due to be reviewed and updated in Autumn 2008.

On 31 March 2008, and subsequent to the announcement in the Budget on 11 March 2008, the Chancellor, in a statement to Parliament, (Hansard: 31 Mar 2008 : Column 27WS) set out that during 2008-09, the Bank of England's loan to Northern Rock will be replaced with direct Treasury funding. This will include a back-up liquidity facility, to meet the Financial Services Authority's requirements, that may remain in place beyond 2010 until sufficient alternative liquidity arrangements are in place. The Treasury announced on 17 June 2008 that the Northern Rock loan would be novated from the Bank of England to the Treasury over the summer and is planned to complete by 30 October 2008. The Treasury submitted a Summer Supplementary Estimate to request from Parliament the resource necessary to refinance the loan.

29.2 Financial Transactions

As a result of the support and guarantee arrangements provided to Northern Rock, the review of options for resolution and the taking of Northern Rock into temporary public ownership, HM Treasury incurred certain costs and received certain income on behalf of HM Government. The following transactions have been included in these accounts:

29.2.1 Professional fees

The members of the Tripartite Authorities entered into a number of contracts for professional advice connected with the period of market instability and the provision of financial assistance to Northern Rock. The professional fees incurred by HM Treasury and specifically related to Northern Rock are shown in the table below and have been included in "other administration costs" within the Resource Accounts (see note 7).

29.2.2 Recovery of costs and related income

Northern Rock agreed to indemnify HM Treasury for certain costs incurred and recoveries of those costs are shown in the table below. A proportion of the costs incurred were also recoverable from the other members of the Tripartite Authorities, again shown in the table below. These recoveries have been accounted for as "administration income appropriation in aid" and used to offset operational costs (see note 9).

Northern Rock has also been paying a monthly extension fee in respect of the guarantee arrangements and financial assistance, and an arrangement fee (which is dependent on the levels of new business written in the period). These fees, totalling £10,940,820, have been accounted for as Consolidated Fund Extra Receipts and have been surrendered, or are due to be surrendered, to the Consolidated Fund (see notes 9.2 and 17). These fees are initially due to the Bank of England and are paid on to HM Treasury in accordance with the terms of the indemnity issued to the Bank of England.

Fees incurred, related recoveries and other income		**2007-08**
		£000
Professional fees incurred :-	Legal advice	6,852
	Financing advice	3,950
	Other advice	818
Recovery from Northern Rock		(9,387)
Recovery from other members of the Tripartite Authorities		(2,233)
Arrangement and extension fees paid by Northern Rock		10,941
Amounts included in debtors in respect of monies due from Northern Rock or other members of the Tripartite Authorities		3,502
Amounts included in Consolidated Fund creditors		3,625

Other costs incurred in relation to the period of market instability, rather than specifically the provision of financial assistance to Northern Rock, have been included in the Resource Accounts under their normal categories, e.g. staff costs within note 6, other professional costs within note 7.

Under the current arrangements, professional fees will continue to be incurred during the period of temporary public ownership and recharged to Northern Rock in accordance with the indemnity, or to other members of the Tripartite Authorities. The extension fee and arrangement fees will continue to be receivable under the terms of the agreement between HM Treasury, the Bank of England and Northern Rock. However, subject to European Commission approval of the company's business plan, a new fee structure will be applied retrospectively from 1 April 2008.

29.2.3 HM Treasury's investment in Northern Rock

Pending the determination by the independent valuer, referred to above, the shares in Northern Rock have been brought on to HM Treasury's balance sheet at nil cost (see note 13.5). Accordingly, the cost of capital charge is nil (cost of capital is charged at a rate of 3.5% on the value in the balance sheet, see note 1.10).

29.3 Other disclosures relating to the financing of Northern Rock

29.3.1 Premium interest on the Bank of England loan to Northern Rock

Under the terms of the financial assistance provided to Northern Rock, interest is being charged on the Bank of England loan at a fixed margin above the Official Bank Rate and, under the terms of the agreements between the Bank of England and HM Treasury, is initially due to the Bank of England and will be payable ultimately to HM Treasury. A portion of this interest is being deferred and rolled up as subordinated debt by Northern Rock. The decision to roll-up the interest and subordinate it to rank alongside Tier 2 capital was taken in the context of HM Treasury's wider aim which was to create a period in which there was stability for Northern Rock, and reduce outflow of capital from the company. The terms of loan will change post-State aid approval, retrospective to 1 April 2008. Further changes to the terms of the loan will come into effect on novation of the loan.

29.3.2 Provisions and contingent liabilities

In the Budget 2008, HM Treasury committed to repaying the Bank of England's loan to Northern Rock and replacing it with direct Treasury financing during the course of 2008-09. The transfer of the loan is necessary to comply with Article 101 of the EC Treaty, which restricts monetary financing of government undertakings. Budget 2008 set out that the amount outstanding of the Treasury loan as at 31 March 2009 was projected to be £14 billion, but this amount is subject to revision and will be updated at the 2008 Pre-Budget Report. On 17 June 2008, the Treasury announced that the loan would be transferred over the summer, at which point the outstanding balance is expected to be £19.3 billion. Accordingly, a provision of £19.3 billion has been recognised in the balance sheet.

The business plan published by Northern Rock intends that repayment is completed by 2010, however the timing will depend to a degree on developments in the UK housing and mortgage markets and repayment schedules will be kept under review. The business plan was prepared on the basis of different scenarios in the market. This loan will be secured against the unencumbered assets of the company. Accordingly a provision for the amount due to the Bank of England on novation and a related asset has been shown in these accounts (see notes 13 and 19).

The contingent liabilities connected with the support of Northern Rock and its subsequent period of temporary public ownership are included in note 27.

30. 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.

30.1 Core Treasury

Core Treasury 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 13.1), the Royal Mint (see Note 13.2) and Northern Rock (see Note 13.5) 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 and other income received are material and in the operating cost statement.

Nicholas Macpherson, Permanent Secretary of the Treasury was also a non-executive member of HM Revenue & Customs Board, until 7 June 2007.

Tom Scholar became a non-executive board member of Northern Rock on 22 February, for which he receives no additional remuneration. In that capacity he also serves on Northern Rock's audit and risk committees.

In addition to his duties as a non-executive director, Sir Peter Gershon completed his review of certain aspects of the Government's Efficiency Programme, in May 2007.

30.2 OGC

The OGC is an office of HM Treasury and sponsors OGCbuying.solutions (note 13.4), 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 Communities and Local Government, Foreign & Commonwealth Office, Home Office, Ministry of Defence, and their agencies.

The Chief Executive has not undertaken any material transactions with OGC or related parties during the year.

30.3 DMO

The 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 Board members, senior managers or other related parties has undertaken any material transactions with the DMO during the year.

31. THIRD PARTY ASSETS

All third party assets (along with the associated liability) are included in the balance sheet.

32. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2007-08 were as follows:

- the Core Department (Core Treasury);
- the Office of Government Commerce (OGC); and
- the Debt Management Office (DMO).

33. POST BALANCE SHEET EVENTS

Reportable non-adjusting post balance sheet events include:

33.1 Barlow Clowes

The Barlow Clowes group of companies collapsed in 1988, and the Treasury subsequently paid compensation to investors and initiated a process to recover as much as was reasonably possible from the Barlow Clowes group of companies and those associated with the collapse. 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 the amounts (calculated in the High Court of Justice of the Isle of Man) of: £8,435,953 plus daily interest accruing from 24 July 2002 of £791 for Director A; and £9,924,276 plus daily interest accruing from 24 July 2002 of £927 for Director B.

Director A appealed this judgment and, after a succession of appeals, The Privy Council, on 10 October 2005, upheld the original judgment. The Officeholders are not seeking recovery from Director B as he is believed to have no quantifiable assets. However, the Officeholders have taken steps to enforce the judgment against Director A and on 14 May 2008 reached a settlement, when a first instalment of £2m was paid to them. Further instalments are due over the next two years.

33.2 Bank of England

On 21 April 2008 the Bank of England launched a scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for UK Treasury Bills. The Debt Management Office will supply the Bank of England with the necessary Treasury Bills. Given its scale, the Scheme is indemnified by the Treasury, but is designed to avoid the public sector taking on the risk of potential losses. Under the terms of the indemnity no amounts would become payable by HM Treasury before 21 October 2011, and they would only arise if the capital losses exceed any surplus accruing to the Bank of England over the duration of the scheme. Further information on the scheme can be found on the Bank of England's website (http://www.bankofengland.co.uk/markets/sls/index.htm).

33.3 Northern Rock

On 17 March, 2008, HM Treasury notified the European Commission of the package of measures to support the restructuring of Northern Rock. On 2 April 2008, HM Treasury were notified that the European Commission had launched an in-depth investigation under the EC Treaty's rules on state aid into this package of measures. The opening of an in-depth investigation gives interested parties the possibility to comment on the proposed measures but it does not prejudge the outcome.

During May 2008, the Northern Rock Shareholders Action Group, SRM and RAB Special Situations (Master) Fund Limited submitted an application for a judicial review of the decision to take Northern Rock into temporary public ownership. The amount of contingent liability arising from that review is unquantifiable.

During June 2008, terms of the novation and refinancing of the Northern Rock loan were agreed with the Bank of England. This transaction is planned to complete by 30 October 2008.

At the date of signature of these accounts 15 July 2008, there had been no calls by indemnified parties on any of the guarantees and indemnities issued by HM Treasury relating to Northern Rock, as detailed in Note 27. No further guarantees or indemnities relating to Northern Rock have been issued.

33.4 Equitable Life

The Parliamentary Ombudsman has indicated that she will publish the report of her investigation into the prudential regulation of Equitable Life on 17 July 2008. The Government will need to consider her findings and any recommendations she may make before issuing a response. As at 15 July 2008, it is uncertain what liabilities, if any, may arise if the Government were to accept any recommendations. No adjustment has been made in the 2007-08 Accounts as a result of this post balance sheet event.

34 Date authorised for issue

The financial statements were authorised for issue on 16 July 2008.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5743041 07/08 19585 405859

Printed on paper containing 75% recycled fibre content minimum.

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline *Lo-call* 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

TSO Shops
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square
London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-295752-5

9 780102 957525