HM TREASURY ANNUAL REPORT AND ACCOUNTS 2006-07

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This document is part of a series of Departmental Reports (Cm 7091 to Cm 7117) which, along with the Main Estimates 2007-08, the document Public Expenditure Statistical Analyses 2007 and the Supplementary Budgetary Information 2007-08, present the Government's expenditure plans for 2007-08, and comparative outturn data for prior years.

HM TREASURY

HM Treasury Annual Report and Accounts 2006-2007

Including the spring Departmental Report and the Consolidated Departmental Resource Accounts

For the year ended 31 March 2007

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Foreword

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

The Government's objective is to build a strong economy and a fair society with opportunity and security for all. We continue to deliver macroeconomic stability with sustained economic growth, delivering modern and efficient public services that are responsive to the needs of users, and equipping the UK to meet the global challenges of the next decade.

- **Maintaining Economic Stability and Promoting Economic Growth** – over the past ten years, the Government's macroeconomic framework has locked in stability, delivering more stability in terms of economic growth and inflation rates than in any decade since the war. The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with 59 consecutive quarters of economic growth.

- **Promoting Fairness and Opportunity for All** – the Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to make the most of their potential. There are over 2.5 million more people in work today than there were in 1997, and the number of children in absolute poverty has more than halved. In addition, as a result of measures implemented since 1997, pensioner households are on average £1,500 a year better off and the poorest third of pensioners are £2,200 a year better off.

- **Delivering High-Quality Public Services** – the Government's aim is to deliver world-class public services through sustained investment matched by continuing reform. For example, following year-on-year increases, over 60,000 more pupils each year now achieve five A* to C grade GCSEs, including English and Maths, than in 1997. Over 99 per cent of patients with suspected cancer are now seen by a specialist within two weeks of being referred by their GP, compared to 63 per cent in 1997.

- **Protecting the Environment** – the Government is committed to high standards of environmental stewardship, integrating economic prosperity with environmental protection and social equity. The Stern Review set out the significance of the challenge of climate change, demanding early and coordinated international action. As the only G7 country already meeting its Kyoto commitments to reduce greenhouse gas emissions, the UK continues to lead the international debate and introduce domestic measures to cut emissions and waste.

A decade after taking office the Government is conducting a second Comprehensive Spending Review. This provides the opportunity for a fundamental review of the balance and pattern of public expenditure, taking stock of investments and reforms and identifying the actions needed to meet the new challenges and opportunities ahead. Building on the successful delivery of £15.5 billion of efficiency gains so far in the 2004 Spending Review period, the Government will pursue even more ambitious reforms to release resources for frontline services and deliver increased value for money.

Without the hard work of the dedicated staff in the Treasury Group, it would not have been possible to deliver the achievements set out in this report. On behalf of all the Treasury Ministers, I would like to thank our officials for their continued commitment.

Gordon Brown

CONTEXT

For the first time, the Treasury Group is combining its Departmental Report with its Resource Accounts to form a single report, giving a comprehensive account of the Treasury's use of resources in 2006-07.

The report has two sections:

Section 1 comprises the Treasury Group's spring Departmental Report for 2006-07, including:

- performance against outstanding Public Service Agreement (PSA) targets;
- information on the Treasury Group's organisation and administration; and
- performance against financial budgets and efficiency targets.

Section 1 also contains details of the performance of the Treasury's Offices and Agencies: the Office of Government Commerce (OGC) and the UK Debt Management Office (DMO)[1].

Section 2 comprises the Consolidated Departmental Resource Accounts for the year ended 31 March 2007.

OVERVIEW OF TREASURY GROUP ORGANISATION

Ministerial responsibilities: The Chancellor of the Exchequer has overall responsibility for the Treasury. He is supported by the Chief Secretary, the Paymaster General, the Financial Secretary and the Economic Secretary.

Full details of the responsibilities of Ministers can be found on pages 14 and 15 of Chapter 1.

Treasury Group organisational structure: The Treasury has three distinct operating units:

- **HM Treasury** (also referred to as "core" Treasury) is responsible for formulating and implementing the UK Government's financial and economic policy. It is managed by the Permanent Secretary supported by the Treasury Board;
- **The United Kingdom Debt Management Office** (DMO) established on 1 April 1998, is the Treasury's only Executive Agency. It specialises in the delivery of treasury management services (in particular raising finance to meet the Government's annual cash requirements and managing the Exchequer's daily cash position) and related policy advice to central government. The DMO's Chief Executive is an Additional Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with the DMO's Framework Document; and
- **The Office of Government Commerce** (OGC) is an Office of the Treasury, responsible for driving value for money improvements in public procurement and estates management in central government. It has its own Chief Executive (at Permanent Secretary level, who is also an Additional Accounting Officer) and Executive Board.

The organisational structures of each of these bodies[1], including their senior management teams, are set out on pages 16 and 17 in Chapter 1.

Board and committee structure: Much of the work of the department is carried out by officials under the general direction of Ministers, with strategic management and direction being provided by the Treasury Board.

Details of the Treasury Group Boards and Committee structure are set out on pages 18 and 19 in Chapter 1.

[1]Further information on their objectives and performance can be found on their websites, Office of Government Commerce: www.ogc.gov.uk, The Debt Management Office: www.dmo.gov.uk

SECTION 1:

ANNUAL DEPARTMENTAL REPORT

1

Organisation Structure and Executive Summary

Aim and Objectives

Ministerial Responsibilities

Treasury Group Structure

Treasury Group Boards and Committees

Executive Summary

Aim and Objectives

1.1 The Treasury is the United Kingdom's economics and finance ministry. It is responsible for formulating and implementing the UK Government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.

1.2 The Treasury has eight objectives, set under the 2004 Spending Review (SR2004[1]) . These are listed below, and can be broadly categorised under four main headings:

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

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[2]	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[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 public services.
Objective VII	Achieve world-class standards of financial management in government.

[1]The 2004 Spending Review (SR2004) set PSA targets for the period 2005-08. These targets in most cases left unchanged, or reinforced and refined, targets set for the periods 2003-06 under the 2002 Spending Review (SR2002) and 2001-04 under the 2000 Spending Review (SR2000); as such the reporting for these targets is combined where appropriate

[2]Objective II contributes to both Raising Trend Growth and Promoting Fairness and Opportunity for All

MINISTERIAL RESPONSIBILITIES

CHANCELLOR OF THE EXCHEQUER: RT HON GORDON BROWN, MP

The Chancellor has overall responsibility for the work of the Treasury. He is supported by:

- the Chief Secretary to the Treasury;
- the Paymaster General;
- the Financial Secretary; and
- the Economic Secretary.

CHIEF SECRETARY TO THE TREASURY: RT HON STEPHEN TIMMS, MP

Responsible for:

- public expenditure including:
  - spending reviews and strategic planning;
  - in-year control;
  - public sector pay and pensions;
  - efficiency in public services;
  - capital investment;
  - public service delivery and PSA targets;
- Treasury interest in devolution;
- assisting the Chancellor where necessary on International and European issues; and
- oversight of integration of the tax and benefit system.

PAYMASTER GENERAL: RT HON DAWN PRIMAROLO, MP

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;
- overall responsibility for the Finance Bill;
- European and international tax issues and assisting where necessary on European issues;
- the voluntary sector, charities, including Corporate Social Responsibility;
- Treasury interest in childcare issues; and
- support to the Chief Secretary on public spending issues and selected Cabinet Committees.

FINANCIAL SECRETARY TO THE TREASURY: JOHN HEALEY, MP

Responsible for:

- enterprise and productivity including small business taxation and support to the Chancellor on economic reform;
- competition and better regulation;
- science policy, including implementation of the 10-year science strategy and the R&D tax credit;
- regional economic policy;
- urban regeneration and social exclusion including housing and planning;
- environmental issues including taxation of transport;
- taxation of oil;
- excise duties and gambling;
- 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;
- 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 the Comprehensive Spending Review and selected Cabinet Committees;
- assisting where necessary on European issues; and
- working with the Paymaster General on the Finance Bill.

ECONOMIC SECRETARY TO THE TREASURY: ED BALLS, MP

Responsible for:

- financial services including: banking, insurance, and the Financial Services Authority and financial services tax issues (such as ISAs, taxation of savings, stamp duty, insurance premium tax and pensions);
- personal savings policy;
- foreign exchange reserves and debt management policy, with responsibility for National Savings and Investment, the Debt Management Office and the Government Actuary's Department;
- support to the Chancellor on EU and wider international finance issues;
- 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 Paymaster General on the Finance Bill.

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HM TREASURY

Nick Macpherson **Permanent Secretary**

MINISTERIAL & CORPORATE SERVICES (MCS)

Sam Beckett	Director of Operations
Sue Duncan	The Government Social Research Unit
Michael Ellam*	Policy & Planning
Stephen Parker*	Treasury Legal Advisers

BUDGET, TAX & WELFARE (BTW)

Mark Neale	Managing Director
Peter Curwen	Budget & Tax Policy
Tony Orhnial	Personal Tax & Welfare Reform
Edward Troup	Business & Indirect Tax
Mike Williams	International Tax

GOVERNMENT FINANCIAL MANAGEMENT (GFM)

Mary Keegan	Managing Director
Vacant	Government Reporting

INTERNATIONAL FINANCE (IF)

Jon Cunliffe	Second Permanent Secretary and Managing Director
Mark Bowman	International Finance
Tamara Finkelstein	Government Treasury Management
Clive Maxwell	Financial Services
Stephen Pickford	Europe
Dave Ramsden	Macroeconomics & Fiscal Policy
Tom Scholar	UK Director at the IMF & World Bank & Economic Minister at the British Embassy

PUBLIC SERVICES & GROWTH (PSG)

John Kingman	Managing Director
Claudia Arney	Enterprise & Growth Unit
Mridul Brivati & Sarah Mullen	Public Spending
Paul Johnson	Public Services & Chief Micro Economist
Ray Shostak	Public Services

*Reports directly to Nick Macpherson

ROUP STRUCTURE

OFFICE OF GOVERNMENT COMMERCE

Peter Fanning Acting Chief Executive OGC

William Jordan Acting Deputy Chief Executive

MARKETS, SUPPLIERS & SKILLS
Mark Pedlingham Executive Director

CAPITAL GROUP
Vacant Executive Director

COLLABORATIVE PROCUREMENT
Richard Abbott Executive Director

POLICY STANDARDS CAPABILITY
Sally Collier Executive Director

UK DEBT MANAGEMENT OFFICE

Robert Stheeman Chief Executive

SERVICES FOR HM TREASURY REMIT
Jo Whelan Deputy Chief Executive

Debt Management
Cash Management
Fund Management
Policy Research

OTHER SERVICES
Jim Juffs Chief Operating Officer

Hedging & Balance Sheet Management
Lending to Local Government
Settlements
Risk Management
HR Business Delivery, Finance & Facilities

TREASURY GROUP BOA

THE BOARD

Purpose:

To lead a Treasury that delivers its objectives and targets now and in the future.

Objectives:

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

Members:

- Nick Macpherson, Permanent Secretary
- Jon Cunliffe, Second Permanent Secretary and Managing Director IF
- Sam Beckett, Director of Operations
- Michael Ellam, Director of Policy and Planning
- Mary Keegan, Managing Director GFM and Finance Director
- John Kingman, Managing Director PSG
- Mark Neale, Managing Director BTW
- Peter Fanning, Acting Chief Executive OGC
- Sir Peter Gershon, Non-Executive Member
- Stella Manzie, Non-Executive Member
- William Sargent, Non-Executive Member
- Sir David Varney, Non-Executive Member

GROUP EXECUTIVE COMMITTEE

Purpose:

- to make any decisions on urgent Group-wide issues required between Board meetings; and
- to act as a formal programme board for the Group Comprehensive Spending Review programme.

RDS AND COMMITTEES

GROUP FINANCE COMMITTEE

Purpose:

- to ensure good financial management in Treasury Group including monitoring monthly financial information; and
- to advise the Board on major financial decisions including resource allocation.

GROUP OPERATIONS COMMITTEE

Purpose:

- to ensure Treasury Group's corporate services support the delivery of Group business; and
- to advise the Board on major operational management issues for decision.

GROUP RESOURCE AUDIT COMMITTEE

Purpose:

- to support the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities on the Treasury Group's processes for risk, control and governance, related to the Group's Resource Account.

EXCHEQUER FUNDS AUDIT COMMITTEE

Purpose:

- to support 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.

OTHER BOARDS AND COMMITTEES*

DMO BOARD

Purpose:

- responsible for strategic operational and management issues relating to the DMO.

OGC BOARD

Purpose:

- to provide strategic direction and collective leadership of OGC.

EXECUTIVE MANAGEMENT GROUP

Purpose:

- to make any decisions on urgent issues relating to core Treasury required between Board meetings.

*See Chapter 6 for Treasury corporate governance structure

EXECUTIVE SUMMARY

1.3 Contributions to performance against Treasury's objectives are made from across the Treasury Group. HM Treasury contributes to all eight objectives, the Debt Management Office (DMO) to Objective I and the Office of Government Commerce (OGC) to Objective VI.

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

1.5 Each PSA target is underpinned by a Technical Note[3], which sets out how the target is measured, how success is defined, the sources of the relevant data, and any other relevant information such as geographic or demographic coverage.

Reporting terminology

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

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

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

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

This year the Treasury has agreed the use of a new assessment rating "slippage in parts" for those targets with multiple parts where some parts of the target are on course and other parts are not.

[3] Available on the HM Treasury website: www.hm-treasury.gov.uk

Progress against PSA targets in 2006-07

1.8 The following table gives a summary assessment of progress on each of the Treasury's outstanding PSA targets from SR2002 and SR2004. Chapters 2 to 5 give more detailed information on progress against each of the targets. The Treasury is on course to meet fully eight of its ten SR2004 PSA targets. One PSA target (target 7) is not yet assessed and one is reporting slippage on two of its four elements in parts of a multi-target (target 8).

Objective	PSA Target		Dec 2006[4]	Jun 2007
Aim	PSA 1 SR2004	Demonstrate by 2008, progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projections.	On course	On course
	PSA 1 SR2002	*Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.*	*On course*	*On course*
I	PSA 2 SR2004	Inflation to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent for the 12 month increase in the Consumer Prices Index (CPI)). (SR2002 target same as SR2004)	Met-ongoing*	Met-ongoing*
	PSA 3 SR2004	Over the economic cycle, maintain: public sector net debt below 40 per cent of Gross Domestic Product (GDP); and the current budget in balance or surplus. (SR2002 target same as SR2004)	On course	On course
II	PSA 4 SR2004	Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors, (joint with Department of Trade and Industry (DTI)).	On course	On course
	Equivalent SR2002 PSA target	*Demonstrate progress by 2006 on the Government's long–term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany, (joint with DTI).*	*On course*	*On course*
	PSA 5 SR2004	As part of the wider objective of full employment in every region, over the next three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate, (joint with Department for Work and Pensions (DWP)).	On course	On course
	Equivalent SR2002 PSA target	*Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle, (joint target with DWP).*	*On course*	*On course*
	PSA 6 SR2004	Make sustainable improvements in the economic performance of all English regions by 2008, and over the long-term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006, (joint with Communities and Local Government (CLG) and DTI).	On course	On course
	Equivalent SR2002 PSA target	*Make sustainable improvements in the economic performance of all English regions, and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006, (joint with CLG and DTI).*	*On course*	*On course*
III		There are no PSA targets relating to Objective III		

[4] As per reporting in the 2006 Autumn Performance Report, published December 2006 and available on the Treasury website: www.hm-treasury.gov.uk

IV	PSA 7 SR2004	Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020, (joint with DWP)	Not yet assessed	Not yet assessed
V	PSA 8 SR2004 PSA 8(i) SR2004 Global Economy	OVERALL RATING – SLIPPAGE IN PARTS Promote increased global prosperity and social justice by: • working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards; SR2002 target same as SR2004	On course	On course
	PSA 8(ii)a SR2004 HIPCS	• ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008;	On course	On course
	Equivalent SR2002 PSA target HIPCS	• *Promote increased global prosperity and social justice by ensuring that three-quarters of all eligible HIPC countries committed to poverty reduction receive irrevocable debt relief by 2006*	On course	Met
	PSA 8(ii)b SR2004 MDGs	• international partners are working effectively with poor countries to make progress towards the UN 2015 Millennium Development Goals (MDGs), (joint with Department for International Development (DFID)).	Slippage	Slippage in parts
	Equivalent SR2002 PSA target MDGs	• *working with international partners to make progress towards the United Nations 2015 MDGs, (joint with DFID)*	On course	Met
	PSA 8 (iii) Lisbon Goals	Working with our EU partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals in 2008.	Slippage	Slippage
	Equivalent SR2002 PSA target Lisbon Goals	*Promote increased global prosperity and social justice by demonstrating progress towards the Lisbon Goals by 2006 by working with our EU partners to achieve structural economic reform in Europe.*	Slippage	Slippage
VI	PSA 9 SR2004	OVERALL RATING - ON COURSE Improve public services by working with departments to help them meet their: • PSA targets (joint target with Cabinet Office) and • efficiency targets amounting to £20 billion by 2007-08 consistently with the fiscal rules.	On course On course	On course On course
	PSA 9 SR2002 PSA element only	Improve public services by working with departments to help them meet their Public Services Agreement (PSA) targets, (joint with Cabinet Office). There was no efficiency target in SR2002.	On course	On course
	PSA 10 SR2004	Deliver a further £3bn saving by 2007-08 in central government civil procurement, through improvements in the success rate of programmes and projects and through other commercial initiatives.	On course	On course
VII		There are no PSA targets relating to Objective VII		
VIII		There are no PSA targets relating to Objective VIII		

ACHIEVEMENTS

1.9 The main achievements in the delivery of the Treasury's objectives in 2006-07 have been as follows:

Maintaining Stability at Home and Overseas

- Domestically, despite recent rises, inflation continued to remain near the target of 2 per cent and market expectations 10 years ahead for inflation are for this to continue. The UK's macroeconomic framework has delivered domestic stability that has seen volatility in the UK economy at historically low levels and the lowest in the G7. UK GDP has now expanded for 59 consecutive quarters and rose by 2¾ per cent in 2006. The UK is in a strong position to respond to the global economic challenges of the next decade.

- Budget 2007 confirmed that the Government will continue to deliver sound and sustainable public finances over the medium term, meeting both the golden rule and the sustainable investment rule.

- Internationally, the UK remains committed to the rapid and full implementation of the Heavily Indebted Poor Countries (HIPC) Initiative to ensure maximum debt relief for the world's poorest and most indebted countries – 30 countries are already benefiting, enabling them to free up resources to spend on poverty reduction, and up to 14 others could qualify. The UK will also offer debt relief unilaterally for non-HIPC poor countries who can use the savings for poverty reduction. That means up to an additional 29 countries could benefit from debt relief.

Raising Trend Growth

- The latest international comparisons of productivity estimates show the UK is making real progress towards narrowing the productivity gap with its main industrialised competitors. On an output per worker basis the UK has closed the gap with Germany, more than halved the gap with France, and is now the only G7 country to have kept pace with the USA's impressive productivity performance. The relative improvements in the UK's productivity performance have been all the more impressive as they have occurred during a period of unprecedented employment growth. There are now over 2.5 million more people in jobs than in 1997 and the UK has the highest employment rate in the G7.

- There is emerging evidence of encouraging progress on enhancing regional economic performance and reducing the persistent gap in growth rates between the best and worst performing regions. Regional Gross Value Added (GVA) data show that all English regions grew in 2004 and 2005 and that the poorer performing regions narrowed the gap in growth rates with London, the South East and East in 2005[5].

- One of the key drivers of productivity is skills – the skills gap between the top three regions and the bottom six regions has narrowed from 2.6 percentage points in 2001 to 1.3 percentage points in 2005[5].

- The regulatory and administrative environment affects entrepreneurial activity. The Government is committed to reducing the administrative burdens on business and to simplifing tax administration. The Government has been carrying out work to measure the total administrative burden on business of complying with government regulations. It will now commit to reducing the administrative burden from regulations by 25 per cent. *Delivering a new relationship with business: HMRC's plans to deliver a better service for business by 2010-2011* published alongside Budget 2006 set out milestones for the introduction of new and improved services that will reduce the administrative burdens on business.

Promoting Fairness and Opportunity for All

- The Government is committed to a modern and fair tax system, and continues to take forward its programme of reform to simplify the system, tackle child and pensioner poverty, and to make work pay. Budget 2007 announced that the child element of the Child Tax Credit will rise by £150 above earnings indexation in April 2008. In support of pensioners, increases in the age-related tax allowances will mean that from April 2008, 43 per cent of pensioners overall will pay no tax. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000.

- The Government is committed to promoting sustainable development, achieved through strong and stable economic growth coupled with action to protect and improve the environment. Treasury continues to use fiscal and, where appropriate, other instruments to deliver on its environmental objectives. In particular, the climate change levy, along with other measures, has delivered a significant reduction in UK emissions since its introduction in 2001. In October 2006, the Stern Review into the economics of climate change was published, detailing the nature of the economic challenges and how they can be met in the UK and globally.

[5] Due to time lag in producing data for this target the latest available data are for 2005

Delivering High Quality Public Services

- The Government seeks to deliver world-class public services through sustained investment and reform which ensures value for money. In support of this, the Treasury works with departments to help them meet challenging outcome-focused PSA targets and stretching efficiency targets consistently with the fiscal rules:
    - the majority of PSA targets for SR2004 remain on track, with around 75 per cent on course according to the overall summary assessments provided by departments in their 2006 Autumn Performance Reports; and
    - departments and local authorities continue to make good progress in delivering their efficiency gains – Budget 2007 reported annual efficiency gains worth over £15.5 billion had been delivered to end December 2006.
- The 2007 Comprehensive Spending Review provides an important opportunity further to strengthen the Government's approach to performance management and public service delivery by:
    - driving ambitious improvements in priority areas while developing the supporting performance management framework to ensure a user focused, devolved approach to public service delivery;
    - pursuing an ambitious and far-reaching value for money programme; and
    - adopting a more strategic approach to asset management and investment decisions.
- Significant progress has been made in appointing professionally qualified Finance Directors and in engaging Permanent Secretaries and the senior finance community in sharing best practice and in improving governance and financial management in departments. The "Finance Skills for All" programme, launched in October 2006, is aimed at raising the Financial Management skills of all senior staff.

Treasury Corporate

1.10 The Treasury Group is committed to ensuring that its corporate services are effective and efficient. Opportunities have been explored to realise economies of integration and scale from sharing key corporate services between Treasury Group members and improving our usage of the Group estate.

Decisions have been taken to:

- merge the key OGC and core Treasury corporate services teams of IS and Facilities, HR, Internal Audit and Finance and Procurement to create a Group Shared Services function;
- vacate the OGC's London Headquarters, Trevelyan House; and
- co-locate OGC London staff with core Treasury London staff in 1 Horse Guards Road.

1.11 68 OGC corporate services staff transferred to Group Shared Services on 1st April 2007 and became core Treasury staff on that date.

Challenges and Priorities for 2007-08

1.12 2007-08 will be a particularly critical year for the Treasury Group. While it is the final year of the 2004 Spending Review (SR2004) period, it is also a bridge to the 2007 Comprehensive Spending Review (2007CSR) period to 2011. Throughout 2007-08, the Treasury will continue to deliver on the commitments of SR2004 while putting in place plans for the 2007CSR.

Looking Ahead to the Future

1.13 As an organisation, the Treasury Group is entering a period of change as it implements its Comprehensive Spending Review settlement. To guide the organisation, the Board has articulated its vision of the Treasury's future:

> In 2011, the Treasury will continue to be at the heart of government: a strong, respected and professional economics and finance ministry. As a department, it shall provide consistently accurate and rigorous analysis and honest advice. It will actively encourage open debate, giving weight to the evidence and listening to, and challenging, its wide range of stakeholders. Stakeholders will view the Treasury as competent and prudent, as well as approachable, understanding and collaborative. As a smaller organisation, the Treasury will be agile, prioritising its resources, streamlining processes and working flexibly across traditional boundaries. The Treasury will continue to offer its people a compelling work experience – the chance to work in a fast moving and stimulating environment, with the right tools, training and systems. Its diverse and committed workforce will develop their skills, expertise and professionalism and apply them in demanding and rewarding jobs within the Treasury.

2 Maintaining Stability at Home and Overseas

Includes:

Objective I	Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability
	PSA Target 2 - Inflation
	PSA Target 3 - Sound Public Finances
	The contribution of the Debt Management Office (DMO)
Objective V	Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable
	PSA Target 8(i) - Global Economy
	PSA Target 8(ii) - Heavily Indebted Poor Countries/Millennium Development Goals
	PSA Target 8(iii) - Lisbon Goals

Objective I

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

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

PSA 2 - Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent for the 12 month increase in the Consumer Prices Index (CPI)); and

PSA 3 - Over the economic cycle, maintain public sector net debt below 40 per cent of Gross Domestic Product (GDP) and the current budget in balance or surplus.

2.2 The Treasury's agency, the **Debt Management Office** (DMO) also contributes towards this objective. Whilst the DMO does not have a specific PSA target, an overview of its contribution to the Treasury's performance against this objective (particularly in relation to its treasury management functions for government) is set out later in this chapter.

PSA 2 – INFLATION

SR2004 target rating – Met-ongoing*

Performance

2.3 CPI inflation ranged between 1.8 and 3.1 per cent between January 2006 and March 2007. The quarterly averages for this period are given in Table 2.1.

2.4 In March 2007 CPI annual inflation rose to 3.1 per cent, exceeding the threshold above which the Governor of the Bank of England, as set out in the Monetary Policy Remit, is required to write an open letter to the Chancellor. In his letter, the Governor set out the view of the Committee on why inflation has moved away from the target, the policy action being taken to deal with it, and the period within which the Monetary Policy Committee expects inflation to return to the target. The letter can be found on the Bank of England website[1]. The Chancellor published a letter to the Governor at 10:30am on the same day[2].

Table 2.1: Inflation performance 2006-07

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
Ave CPI %	1.9	2.2	2.4	2.7	2.9

Quality of Data Systems

2.5 The CPI data are sourced from the Office for National Statistics.

Delivery

2.6 The Treasury seeks to deliver Objective I by setting, implementing and enhancing its macroeconomic framework. The monetary policy framework is based on four principles:

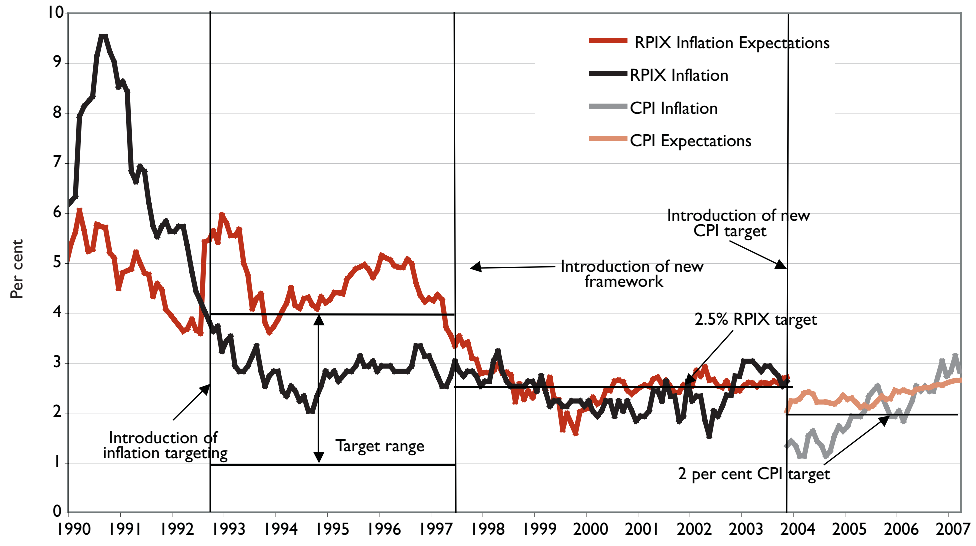
- clear and precise objectives. The primary objective of monetary policy is to deliver price stability;
- full operational independence for the Monetary Policy Committee (MPC) in setting interest rates to meet the Government's inflation target;
- openness, transparency and accountability, which are enhanced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

Achievements

2.7 The current average of independent forecasts is for CPI inflation of 1.9 per cent by the end of this year (see Chart 2.2). Market expectations of inflation 10 years ahead remain close to the CPI target of 2 per cent.

[1] www.bankofengland.co.uk
[2] www.hm-treasury.gov.uk/documents/media/FEE/3D/chxresponse_170407.pdf

Chart 2.2: Inflation performance and expectations



1 Ten year ahead market inflation expectations

2.8 The domestic stability delivered by the UK's macroeconomic framework has ensured that volatility in the UK economy is at historically low levels and is the lowest in the G7. Based on this stability, UK GDP has now expanded for 59 consecutive quarters and it rose by 2¾ per cent in 2006. Overall the Government's macroeconomic framework puts the UK in a strong position to respond to the global economic challenges of the next decade.

2.9 Objective I commits the Treasury to a macroeconomic framework that promotes stability. This has been achieved through transparent monetary and fiscal frameworks whose credibility is demonstrated by the fact that market expectations of inflation have remained around the inflation target since the introduction of these frameworks in 1997.

Risks to Delivery

2.10 With inflation expected to remain above target during the first half of 2007, the risk remains that higher rates of actual inflation could feed through to inflation expectations and earnings growth. However, the evidence so far suggests that monetary policy has kept inflation expectations anchored to the inflation target and, while wage settlements growth has picked up a little, there has been no discernable impact on earnings growth. The Governor's open letter to the Chancellor set out the horizon over which the MPC expects inflation to return to target.

Future Plans

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

PSA 3 – SOUND PUBLIC FINANCES

SR2004 target rating – On course
(SR2002 target is the same as SR2004)

Performance

2.12 Performance against this target in 2006-07 was as follows:

- public sector net debt was 37.4 per cent of Gross Domestic Product (GDP), below the 40 per cent ceiling of the sustainable investment rule; and

- the current budget since the start of the current economic cycle shows an average annual surplus up to 2006-07 of 0.1 per cent of GDP ensuring the Government is meeting its golden rule.

Quality of Data Systems

2.13 All the underlying data used in the trend growth calculations are sourced from the Office for National Statistics.

Delivery

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

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and

- over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

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

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and

- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

Risks to Delivery

2.16 The Treasury seeks to deliver Objective I and reduce risks to delivery by:

- continuously monitoring the state of the public finances to ensure that any risks to the target are identified as soon as they emerge, and by regularly updating, and publishing, forecasts of government revenues and spending in accordance with the provisions of the Code for Fiscal Stability, including assumptions designed to be cautious audited by the National Audit Office (NAO); and

- planning and controlling public expenditure within firm overall spending limits to meet the fiscal rules.

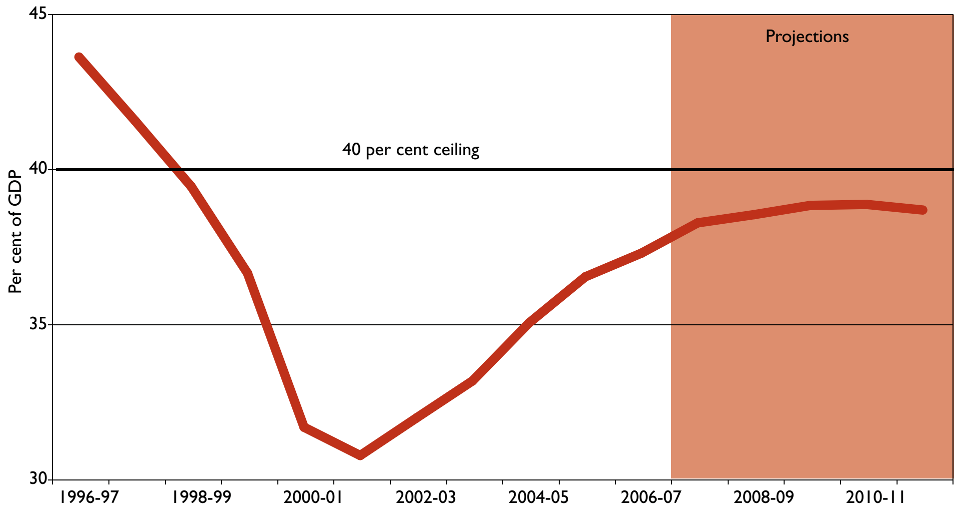
Future Plans

2.17 Budget 2007 confirmed that the Government will continue to ensure sound and sustainable public finances over the medium term:

- public sector net debt is projected to remain low, stabilising below 39 per cent of GDP; and

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle. Beyond the end of the current cycle, the current budget moves clearly into surplus.

Chart 2.3: Meeting the sustainable investment rule



Source: ONS and HM Treasury

CENTRAL GOVERNMENT TREASURY MANAGEMENT – ROLE OF THE **UK DEBT MANAGEMENT OFFICE** (DMO)

2.18 The **DMO** is the executive agency of the Treasury specialising in the delivery of treasury management services and related policy advice to central government. The DMO performs these functions primarily to contribute to Objective I. In carrying out its functions it also has regard to Objective III (Promote efficient, stable and fair financial markets). Since July 2002, the **Public Works Loan Board** (PWLB) **and the Commissioners for the Reduction of the National Debt** (CRND) have been integrated within the DMO. The objective of the PWLB is to lend capital sums to, and collect repayments from, local authorities and thereby minimise local authorities' cost of borrowing. The objective of the CRND is to provide a fund management service to public sector clients. Whilst the DMO does not have a separate PSA target, it does have objectives as follows:

- to develop, provide advice on and implement Her Majesty's Government's (HMG's) debt management strategy;
- to develop, provide advice on and implement HMG's cash management requirements;
- to advise the Treasury on the development and implementation of strategies for managing HMG's balance sheet, to secure sound public finances;
- to develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders;
- to provide a cost-effective lending service to local authorities through the Public Works Loan Board;
- to resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved; and
- to manage, operate and develop an appropriate risk and control framework.

Performance

2.19 Performance in 2006-07 against DMO's objectives was as follows:

- **debt management** - the gilt remit for 2006-07 was successfully delivered, with an estimated outturn from gilt sales of £62.5 billion (cash) raised through 36 auctions. The DMO also, at the request of the Treasury, sold on an execution only basis £1.8 billion cash of index-linked gilts held by British Nuclear Fuels Limited. In addition, the DMO provided advice to the Treasury on the formulation of the 2007-08 debt and cash management remits. The latter were published by the Treasury in the Debt and Reserves Management Report 2007-08 on 21 March 2007;
- the **cash management** remit for 2006-07 was successfully delivered under the new banking arrangements and the changes to market conditions that resulted from the Bank of England's reforms to the Sterling money markets. The DMO continues to measure and monitor the performance of Exchequer cash management against key performance indicators, including against a notional benchmark strategy and market and credit risk limits that reflect the risk appetite approved by Ministers. In addition, the DMO has broadened its cash management trading relationships through further use of electronic and voice brokers and its membership of the London Clearing House (LCH);
- the DMO continued to support additional issues of National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) by hedging HMG's consequential exposure to the equity market; and
- the DMO continued to manage the gilt registration contract with Computershare Investor Services PLC on behalf of the Treasury following the transfer of the registration function from the Bank of England in December 2004. It also continued to offer the gilt purchase and sale service for retail investors which is carried out in association with Computershare as the DMO's agent.

Future Plans

2.20 Looking ahead, the DMO's key business planning themes for 2007-08 remain consistent with previous years with a wide range of activities that are intended to ensure the DMO delivers significant value across its core functions in a cost-effective way. In particular the DMO plans to upgrade its core technology, streamline processes and enhance infrastructure to enhance resilience and efficiency and develop further the DMO's business ability to deliver its core objectives. Specific areas of activity in 2007-08 will include the following:

- successful delivery of core activities, in particular, the financing and cash management remits. Under the financing remit, the DMO will raise £59.8 billion net compromising £1.45 billion of net Treasury bill issuance and £58.4 billion of gross gilt issuance (£29.2 billion of net gilt issuance). In accordance with the Government's debt management policy, this finance will be raised so as to minimise long-term costs while taking into account risk while ensuring that debt management policy is consistent with the aims of monetary policy. Under the cash management remit the DMO will ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure that this is used to best advantage;

- debt management - good progress has been made by the DMO this year in developing strategic debt analysis capability in support of debt management and wider balance sheet objectives; this will continue with other analytical and research work in 2007-08. DMO has also made solid progress this year in developing – with the valued help of the Gilt-Edged Market Makers and system providers – an automated bid capture system for gilt auctions which it intends to implement in 2007-08. The DMO also intends to enhance its operational capability, where appropriate, to manage exposures arising from HMG's balance sheet to reduce risk to the Exchequer;

- cash management - the DMO will seek to develop further the efficiency and effectiveness of its cash management operations by widening the range of instruments in which it transacts, streamlining the processing of transactions and enhancing the means by which its performance is monitored and measured; and

- business continuity management – the DMO continues to attach the highest importance to ensuring that it remains operationally resilient and in this respect intends to undertake a wide range of initiatives aimed at enhancing its business continuity management further in 2007-08.

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

2.21 PSA target 8 relates specifically to this objective. It states that the Treasury will promote increased global prosperity and social justice by:

- 8(i) working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards;
- 8(ii)a ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008; and that
- 8(ii)b international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs), (target 8(ii) is a joint target with Department for International Development (DFID)); and
- 8(iii) working with our European (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008.

2.22 As a multi target, the overall rating for this PSA is, **slippage in parts** – please see detailed ratings for each part of the target in the text that follows.

PSA 8(i) – GLOBAL ECONOMY

SR2004 target rating – On course
SR2002 target rating – On course

Performance

2.23 The Treasury continues to be on course to meet this target. Under the codes and standards initiative, the International Monetary Fund (IMF) and the World Bank monitor observance by countries against 12[3] individual codes and standards, which act as benchmarks for good practice in transparency, the financial sector and market integrity. It therefore aims to strengthen the international financial architecture and reduce the likelihood of financial crises. At the end of December 2006, 137 countries (approximately three quarters of the IMF membership) had participated in the codes and standards initiative. This is up from 130 in February 2006 and 109 in June 2004. 914 individual assessments, reassessments and updates have been produced. This compares with 825 in February 2006 and 724 in April 2005. Over three quarters of the assessments, reassessments and updates have been published.

Quality of Data Systems

2.24 The IMF provides information on the number of Reports on the Observance of Standards and Codes (ROSCs) completed. Further information is availble from their website[3].

Delivery

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

Risks to Delivery

2.26 The Treasury aims to address the risk that no new countries will sign up to the codes and standards initiative by continuing to be an advocate for the initiative, through both the Executive Board of the IMF and World Bank and the chairmanship of the IMFC. The UK is itself committed to undertaking all 12 codes and standards modules – eight have been completed to date and in 2006 the UK formally entered into the process of completing two further modules.

2.27 As the lead UK department for relations with the IMF, the Treasury continues to work on a range of global prosperity issues, as outlined in the Treasury's annual report to Parliament on the UK and the IMF[4]. Key achievements in 2006 include work on revising the framework for IMF surveillance and the adoption of the Board of Governor's Resolution on Quota and Voice Reform.

[3] Further information is available on IMF website at www.imf.org

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

Future Plans

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

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

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

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

SR2004 target rating

PSA 8(ii)a	**HIPC - On course**
PSA 8(ii)b	**MDGs - Slippage in parts**

SR2002 target rating

PSA 8(ii)a	**HIPC - Met**
PSA 8(ii)b	**MDGs - Met**

This is the final report against both parts of the SR2002 target.

Performance against part a – HIPC

2.29 Real progress has been made with both the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

2.30 30 countries have reached Decision Point under the HIPC initiative and are in receipt of interim debt relief. Of these, 22 countries have reached Completion Point and have received irrevocable debt relief, including 100 per cent bilateral debt cancellation from the UK. The Treasury's estimate, which is in line with that of the IMF and World Bank, is that almost all of the 28 countries that had reached Decision Point at the end of 2005[5] will have exited the Initiative by end of 2007. 21 of the 26 countries that had reached Decision Point by end of 2002 had reached Completion Point by end of 2006 and have received debt cancellation[6].

2.31 Significant progress has also been made in implementing the MDRI. Following the IMF in early 2006, the World Bank and African Development Bank (AfDB) have now implemented the MDRI, and the 22 countries that have completed the HIPC Initiative have had 100 per cent of their debts to the IMF, World Bank and AfDB cancelled.

Quality of Data Systems for HIPCs

2.32 Decision Point and Completion Point for countries in the HIPC Initiative are determined by the Boards of the IMF and the World Bank and are made public on the websites of these institutions.

Performance against part b - MDGs

2.33 Overall, progress is good or reasonable against almost all of the indicators supporting this target.

2.34 The Poverty Reduction Strategy (PRS) approach has been widely adopted in countries accessing International Development Association (IDA) resources. There has been progress on this target with 71 per cent out of the target of 75 per cent of countries having produced at least one report so far. The Treasury and DFID are working to increase the number of countries developing and supporting effective and sustainable poverty reduction strategies.

2.35 Important progress was made in 2005, through the EU and G8 commitments to increase aid, to provide an additional $50 billion annually for Official Development Assistance (ODA) by 2010. The challenge now is to ensure that the aid is delivered, and used effectively, to accelerate progress towards the MDGs[7]. The Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) figures show ODA net of debt relief of $84 billion for 2005 and $83 billion for 2006. These figures demonstrate a sustained increase from the baseline, albeit with a slight decrease between 2005 and 2006.

2.36 Seven years into its reform programme, European Commission aid is more effective in terms of speedier delivery and improved portfolio performance overall, and progress is being made towards the three sub-indicators.

2.37 Good progress is being made within all four International Financial Institutions (IFIs) on the implementation of a range of reform initiatives including strengthening their Human Resources management and introducing a results-based approach to operations, improving strategic planning, budgeting and management, and the alignment and harmonisation agendas.

2.38 Good progress towards achieving the Millennium Development Goals has been made in some countries – for example on income poverty in Asia, and primary education in North Africa – but the global rate of progress remains too slow and uneven and in some cases countries are off-track.

[5] The SR2004 target is for 90 per cent of the 28 countries that had reached Decision Point by end 2005 to have reached Completion Point
[6] The SR2002 target was for three quarters of the 26 countries that had reached Decision Point by end 2002 to have reached Completion point by end 2006
[7] http://www.un.org/millenniumgoals

2.39 **The SR2002 target rating has been met.** Improvements were measured through a number of indicators, including the way in which the international agencies supported countries to implement their PRSs; through improvements in the effectiveness of the international financial institutions and the EC; and through European donors' ODA/GNI (Gross National Income) ratios. At the end of 2005-06, 49 countries had Poverty Reduction Strategy Papers (PRSPs). 71 per cent of these had prepared at least one annual progress report. European Commission aid has become more effective. The DAC has reported an average figure for EU Member states of 0.43 per cent for ODA/GNI for 2006, ahead of the target of 0.39 per cent by 2006.

Quality of Data Systems for MDGs

2.40 The data used in assessing progress towards the MDGs are taken from the World Bank and United Nations agencies who, in turn, use countries' own data systems. Systems for gathering data are very weak in many developing countries.

Delivery

HIPC

2.41 The UK is fully committed to the full implementation and financing of debt relief and the Treasury has continued to work closely with DFID, its international partners and IFIs, to deliver debt relief. The UK supports the HIPC Capacity Building Project in building HIPC's debt management capacity, and also provide in-country support (through DFID country offices) for the reforms and poverty reduction planning processes essential for achievement of HIPC Completion Point. The UK continues to support those countries that are not yet benefiting from HIPC debt relief (including post conflict countries where appropriate) to meet the standards required.

2.42 The UK has continued to go further than required by the HIPC initiative and delivers 100 per cent bilateral debt relief to HIPC countries. The UK remains the second largest contributor to the HIPC Trust Fund and has provided $305 million (and pledged an additional $76 million) to finance the multilateral institutions' participation in the Initiative. On top of this, the UK will finance its share (10 per cent) of the debt service payments made by eligible non-HIPCs to the World Bank and AfDB.

MDGs

2.43 The UK is fully committed to helping to achieve the MDGs. The UK is building on the significant progress made in 2005 through the EU and G8 commitments to increase aid (resulting in an estimated increase of $50 billion aid annually by 2010, compared to 2004) and will continue to work to ensure that international partners deliver on their commitments.

2.44 The UK Government is working with developing countries and international partners to ensure that they work effectively together towards improved policies and more and better quality aid to meet the Millennium Development Goals by 2015. This includes through the launch of international initiatives such as the International Finance Facility for Immunisation (IFFIm) and the pilot Advance Market Commitment (AMC) for vaccines.

2.45 The IFFIm will provide the Global Alliance for Vaccines and Immunisation (GAVI) with an extra $4 billion over the next 10 years which will immunise more than 500 million children in over 70 of the poorest countries by 2015; save 10 million lives (including 5 million children) by 2015; and help to eradicate polio. The $1.5 billion AMC pilot for Pneumococcus, launched in February 2007 will accelerate the development and availability of new vaccines. A successful AMC would ensure development of an effective vaccine at affordable prices and would prevent approximately 5.4 million deaths by 2030.

2.46 The UK Government is calling on international partners and developing countries to deliver on their promises and achieve universal primary education. As part of the UK's overall announcement that it will spend at least £8.5 billion on aid for education over the following 10 years, the UK has made specific education commitments in respect of Ghana, Mozambique, India, Sierra Leone, Burundi, Somalia, Nepal, Democratic Republic of Congo, Ethiopia and Tanzania. The UK Government co-convened an International Conference on Education, which the European Commission hosted in Brussels on 2 May. This conference was attended by high level representatives from the EU states, G8 nations, Gulf and Arab states, developing countries, the private sector, UN and key Non Government Organisations. Participants agreed on the need to accelerate progress and renewed their political commitment to education for all.

2.47 On trade, the UK has raised the need for a freer and fairer global trading system at international meetings. The UK strongly supports the resumption of the Doha Development Agenda negotiations and has pressed partners on the importance of concluding the Doha Development Agenda round of World Trade Organisation (WTO) negotiations at the earliest opportunity. The UK has announced that its support for "aid for trade", which includes training trade specialists and building trade institutions, as well as support for infrastructure – like roads, ports and telecommunications – is expected to increase by 50 per cent by 2010-11. This will equate to $750 million a year in 2010. The UK calls for all countries to turn their commitments into concrete and credible financing, within a new "aid for trade" framework that cuts red tape and builds the infrastructure that business in poor countries needs to compete.

Risks to Delivery

HIPC

2.48 The majority of countries still to receive irrevocable debt cancellation under HIPC are post conflict and fragile states. They will need additional support to meet the standards required, and the international community will need to show some flexibility. The HIPC Initiative has been adapted to assist them, for example by allowing post conflict countries to establish a track record of performance under Emergency Post-Conflict Assistance programmes. The UK is also working through its bilateral development programmes and with international partners to build peace, strengthen governance, debt and financial management and help these countries meet the standards required to benefit from debt relief.

MDGs

2.49 The key challenge on MDGs is to ensure that the increased aid promised by the EU and G8 is delivered and that it is used effectively to accelerate progress towards the MDGs, and to ensure that countries can progress towards the MDGs without re-accumulating unsustainable levels of debt. Developing countries must also develop long term plans to achieve the MDGs. The UK is working with international partners to ensure that the PRS approach is widely adopted.

Future Plans

2.50 The Treasury will continue to work closely with partners to ensure that eligible countries are able to resolve their debt problems through the HIPC Initiative, and that countries are able to meet their development goals without building up unsustainable debt. The Treasury and DFID are working with other shareholders of the IFIs to agree on the funding of Liberia's substantial arrears to the IFIs, to ensure that they can benefit from HIPC debt relief. The UK will pay its fair share of the necessary costs of arrears clearance.

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

- encourage developing countries to develop ambitious and costed plans to achieve the MDGs;
- monitor countries' delivery on aid commitments, which are critical to achieving the MDGs;
- develop plans, working with international and regional development banks to aid energy efficiency in developing countries; and
- work with donor and developing country partners to achieve universal primary education.

PSA 8(iii) – LISBON GOALS

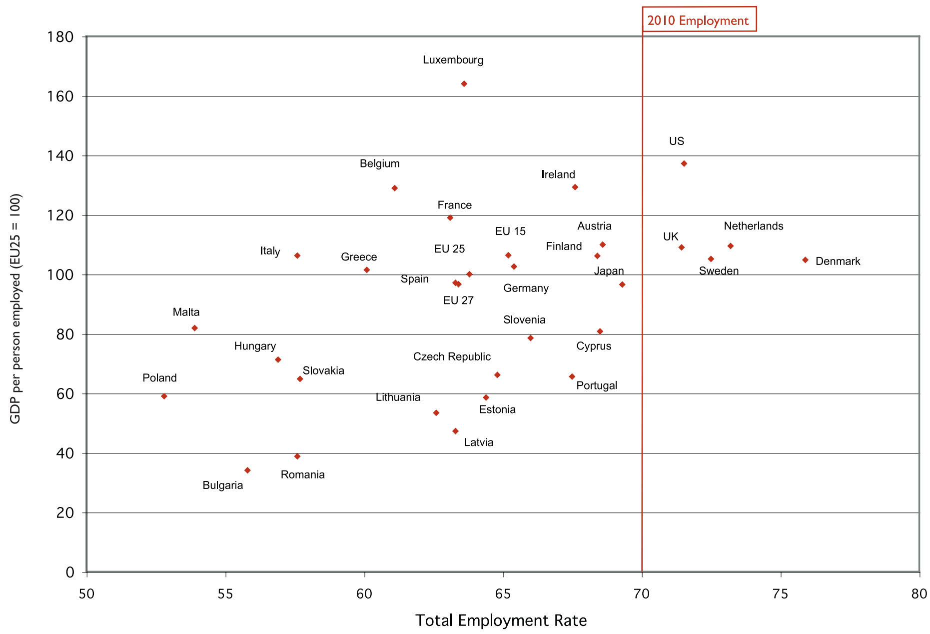
SR2004 target rating – Slippage
SR2002 target rating – Slippage

Performance

2.52 At the Lisbon European Council in March 2000, the leaders of Europe committed to a ten-year programme of structural reform to improve growth and employment across the EU (see Chart 2.4 for EU member states' current positions). Over six years into this programme, progress has been made to open up new markets to competition, modernise the Community's competition rules and promote better regulation in the EU.

2.53 Despite this progress, there is slippage against this target, The risk remains significant that Europe will fail to realise the strategic ambitions of the Lisbon strategy, particularly its aim of achieving 70 per cent employment rates across the EU by 2010. At 63.8 per cent in 2005, EU 25 employment remains well below this target and has missed the interim target of 67 per cent employment rates by 2005.

Chart 2.4: GDP per person employed (productivity) and employment



2.54 Strengthening economic reform in Europe remains a key priority for the UK. Following the progress made during the UK Presidency of the European Union in 2005 the Government has continued to press the case for improvements in the European regulatory environment, as well as for open markets and more pro-active use of competition policy. In October 2006, Member States submitted updates to their National Reform Programmes (NRP) reporting on the progress of structural reform at national level since 2005. Recent actions include:

- gaining commitment from the European Commission for a target to reduce the administrative burden of EU legislation by 25 per cent by 2013, with political agreement reached at the Spring European Council;
- leading the debate on how governments can help individuals meet the challenges of globalisation by providing 'social bridges'[8] to future jobs, enabling individuals to increase their employability and take advantage of changes in the labour market;
- responding to the European Commission's single market consultation, setting out a principles based approach making the case for further reforms to strengthen the internal market in the face of globalisation[9]; and
- further work on energy markets in the EU culminating in the publication of the European Commission strategic energy review, the UK's vision for the EU Emissions Trading Scheme (ETS)[10] and commitment for action to tackle climate change at the Spring European Council. The UK is committed to the success of the ETS and was instrumental in the European Free Trade Agreement countries signing up to ETS.

Quality of Data Systems

2.55 Measurement of progress uses the set of structural indicators developed, produced and maintained by Eurostat, and mandated by the council of the European Union. The data for the productivity and employment measures are sourced from the Eurostat structural indicators database. EU27 data are not currently available for both productivity measures. Outturn data are subject to a time lag due to national data collection and Eurostat collation and standardisation and can be periodically revised subsequent to publication.

Delivery

2.56 The Treasury and other government departments continue to work with EU Member States and institutions such as the European Commission to advance the pace of economic reform at national and Community level.

[8] For a discussion on this approach, see: Social Bridges – meeting the challenge of globalisation, HM Treasury and the Swedish Ministry of Finance, April 2006 (http://www.hm-treasury.gov.uk./media/69A/92/social_bridges.pdf)
[9] For more see The Single Market: A vision for the 21st Century 30 January 2007 - http://www.hm-treasury.gov.uk./documents/international_issues/european_economic_reform/int_eer_singlemarket.cfm
[10] For more information see Emissions Trading: UK Government Vision available at http://www.hm-treasury.gov.uk/media/98D/4B/environment_emissionstrading301006.pdf

Risks to Delivery

2.57 Despite this progress, the risk remains significant that Europe will fail to realise the strategic ambitions of the Lisbon strategy. Indeed the EU's productivity gap with the US is widening and Europe needs to get 18 million more people into jobs to meet its employment target for 2010. Delivery is dependant on effectively working with, and influencing, others. The Treasury's direct influence over the target is limited.

Future Plans

2.58 The Treasury will continue to work with EU finance ministries, the European Commission and other EU partners including the current German and forthcoming Portuguese Presidencies to deliver the necessary structural reform to achieve growth and full employment.

2.59 This work will continue to focus on strengthening the key drivers of productivity growth and improving the functioning of EU labour markets, with a key focus on Europe's need to become more outward looking. The Government's priorities include:

- establishing a more outward-looking Europe to meet the challenge of globalisation;
- further reform to reduce the regulatory burden of new and existing EU legislation on business; and
- ensuring open competition and flexible labour markets across the EU.

3

Raising Trend Growth

Includes:

	PSA Target 1 - Trend Rate of Growth
Objective II	Increase the productivity of the economy and expand economic and employment opportunities for all
	PSA Target 4 - Productivity Growth
	PSA Target 6 - Regional Growth
Objective III	Promote efficient, stable and fair financial markets, for their users and the economy
	There is no PSA Target for this objective
Better Regulation	

Aim

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

PSA 1 - TREND RATE OF GROWTH

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

> Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle[1] by at least meeting the Budget 2004 projections.

SR2004 target rating – On course
SR2002 target rating – On course

Performance

3.2 The measure of the Treasury's performance in meeting this target is the estimate of the trend rate of non-oil output growth over the economic cycle in relation to the trend projections set out in Budget 2004. The Budget 2004 projection was for 2¾ per cent trend growth up to the end of 2006, declining to 2½ per cent thereafter due to demographic effects. This assessment was revised in *Trend Growth: new evidence and prospects*, published alongside the 2006 Pre-Budget Report. In light of new evidence, the projection for growth in working age population from 2006Q4 onwards was revised upwards from 0.4 per cent to 0.6 per cent a year, and accordingly the neutral estimate of trend growth from 2006Q4 was revised from 2½ per cent to 2¾ per cent a year.

3.3 Given that the Budget 2004 projections commenced during the current economic cycle, and that the end-date remains uncertain, the Treasury reports on growth so far in the current economic cycle together with the assessed cyclical position of the economy.

3.4 Budget 2007 set out HM Treasury's latest projections of trend growth for the period 2001Q3-2006Q4 and from 2006Q4 onwards. Data available at Budget time indicated that growth in non-oil Gross Value Added (GVA) over 2001Q3-2006Q4 averaged 2.74 per cent a year. From 1997H1 - the start of the current cycle – to 2006Q4 growth averaged 2.93 per cent a year, compared with 2.43 per cent over the previous cycle[2]. Budget 2007 forecast that the output gap would close early in 2007. Keeping in mind the stage of the reporting period, this is consistent with being on course to meet the target.

3.5 The Government's macroeconomic framework has continued to deliver an unprecedented period of sustained and stable economic growth with low inflation. UK GDP has now expanded for 59 consecutive quarters. On the basis of quarterly national accounts data, this is the longest unbroken expansion since records began over 50 years ago. Moreover, the current economic expansion has persisted for well over twice the duration of the previous period of unbroken growth, with output having grown by 32 per cent since 1997.

Table 3.1: Estimated trend rates of growth (per cent per annum)

Period	Trend output per hour worked Underlying	Trend output per hour worked Actual	Average Hours worked	Employment Rate	Population of Working age	Trend Output Growth
1986Q2 - 1997H1	2.10	1.92	-0.11	0.36	0.24	**2.43**
1997H1 - 2001Q3	2.81	2.60	-0.44	0.42	0.58	**3.16**

Quality of Data Systems

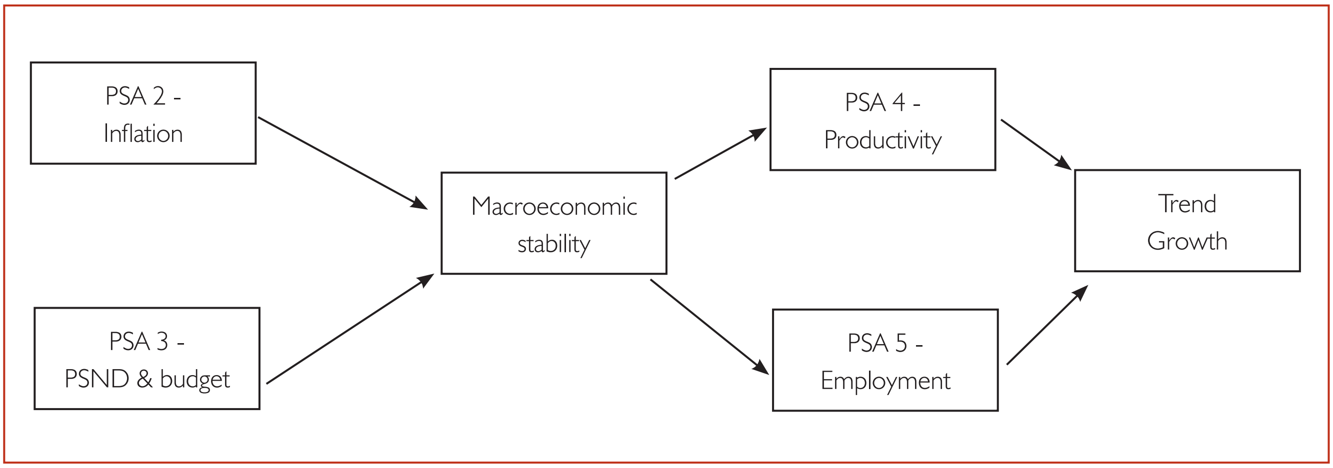
3.6 All the underlying data used in the trend growth calculations are sourced from the Office for National Statistics.

Delivery

3.7 The policies and initiatives necessary to achieve the trend output growth PSA target inter-relate with a number of the Treasury's objectives, including Objective I on macroeconomic stability and Objective II on productivity and employment. Macroeconomic stability is important in improving growth in productivity and the employment rate over the economic cycle, which in turn increases the trend rate of output growth. See explanatory diagram Fig 3.2 on how these PSA targets fit together.

[1] The latest assessment of the economic cycle can be found in the 2007 Budget Report available on the Treasury website: www.hm-treasury.gov.uk
[2] Since Budget 2007, ONS has released its preliminary estimate of non-oil GVA growth, indicating that non-oil GVA grew by 0.7 per cent in 2007Q1

Fig 3.2 Trend growth



Risks to Delivery

3.8 If there were substantial data revisions relating to output during the current cycle, then this could impact either positively or negatively on performance against the SR2002 and SR2004 targets. Economic shocks impacting positively or negatively on the economy's supply potential could also pose a risk in meeting these targets.

Future Plans

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

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

PSA 4 – PRODUCTIVITY GROWTH

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

> Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle[3], improving competitiveness and narrowing the gap with our major industrial competitors[4], (joint target with Department of Trade and Industry (DTI)).

SR2004 target rating – On course
SR2002 target rating – On course

Performance

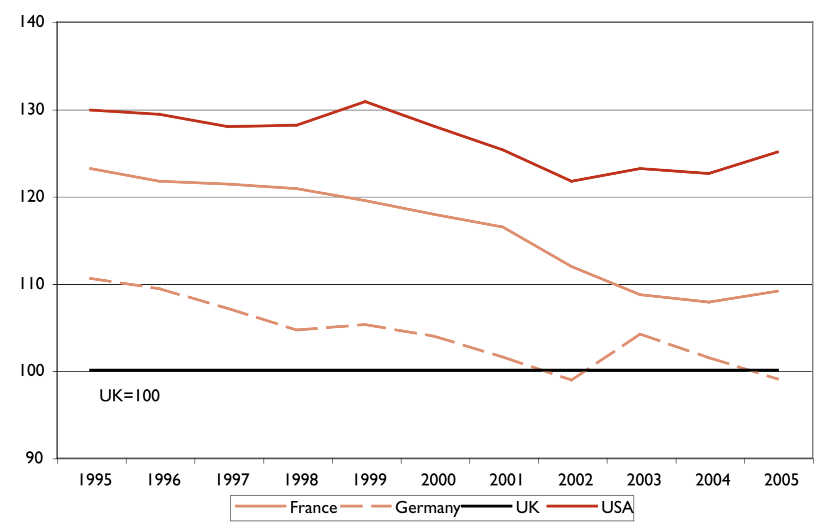
3.11 There is strong evidence that the UK is making progress in raising its trend rate of productivity growth. Trend productivity growth (trend output per hour worked) over the first half of the current economic cycle (1997H1-2001Q3) is estimated to have grown by 2.60 per cent a year. This compares with 1.92 per cent over the previous cycle (1986Q2 to 1997H1).

3.12 The latest ONS[5] data also show the UK is making real progress in narrowing the productivity gap against its key competitors on both measures of productivity – output per worker and output per hour worked. On an output per worker basis the UK has closed the gap with Germany, more than halved the gap with France, and is now the only G7 country to have kept pace with the USA's impressive productivity performance.

3.13 On an output per hour worked measure, the UK has further to catch up, but progress is being made. Since 1995, the output per hour worked gap with France has fallen from 30 percentage points to 19 percentage points, the output per hour worked gap with Germany has fallen from 26 percentage points to 15 percentage points, and the output per hour worked gap with the USA has fallen from 22 percentage points to 16 percentage points (see Chart 3.3).

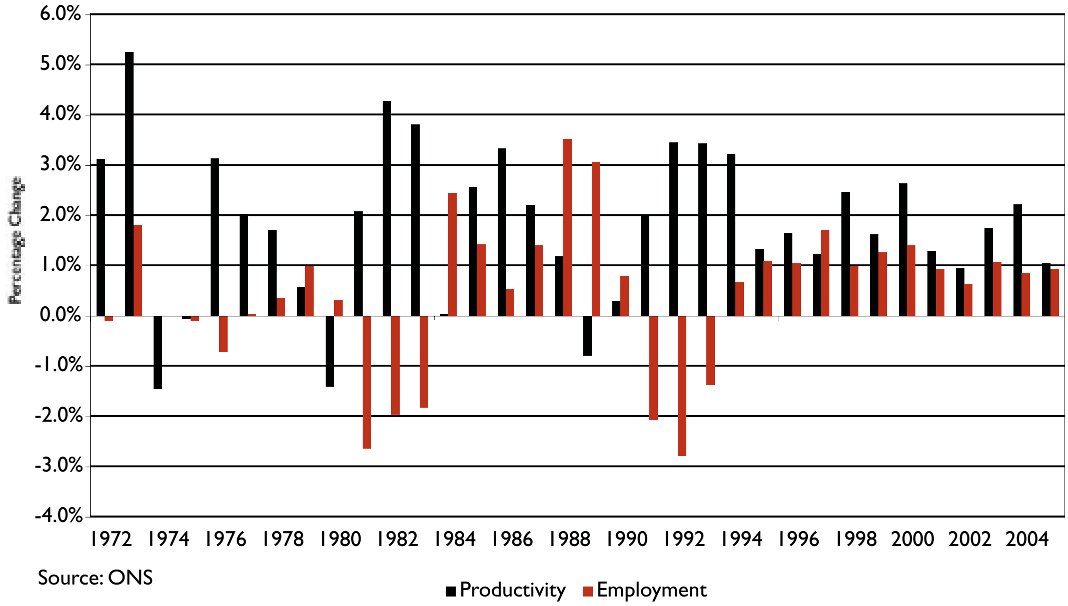
3.14 The relative improvements in the UK's productivity performance have been all the more impressive as they have occurred during a period of unprecedented employment growth. There are now over 2.5 million more people in jobs than in 1997 and the UK has the highest employment rate in the G7. Economies with strong employment growth usually experience depressed productivity growth, as new workers are initially less productive while they learn job-specific skills. However, the UK has successfully managed to combine both high and rising rates of productivity growth with high and rising employment growth. Chart 3.4 illustrates the UK's record on employment and productivity growth.

Chart 3.3: International comparisons of output per worker 2005



[3] The latest assessment of the economic cycle can be found in the 2007 Budget Report available on the Treasury website: www.hm-treasury.gov.uk
[4] The list of industrial competitors can be found in the 2005-08 PSA Technical Note available on www.hm-treasury.gov.uk
[5] International Comparisons of Productivity, February 2007 Office for National Statistics

Chart 3.4: Employment and productivity growth



Source: ONS

Quality of Data Systems

3.15 The Treasury monitors progress on the productivity gap with data published by the Office for National Statistics on the International Comparisons of Productivity (ICP) which are themselves based on OECD data. Small changes in the ICP series are interpreted cautiously to allow for some margin of error in the constituent parts.

3.16 Trend estimates of productivity are drawn from the Treasury estimates (see Table B2 of Budget 2007) that constitute part of the trend growth estimate. The methodology upon which these estimates are based is set out in the Treasury publication *Trend growth: recent developments and prospects*, April 2002. The National Audit Office audits the Treasury's assumption for the underlying growth rate.

Delivery

3.17 The Government's strategy for advancing productivity growth is based on two fundamental pillars: macroeconomic stability to allow firms and individuals to invest in the future, and microeconomic reforms to ensure that markets function efficiently and the barriers to productivity growth are removed.

3.18 The Government has identified five key drivers of productivity growth:

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

3.19 The Government recognises that to effect real change in the long-run rate of productivity growth it needs policies to support and strengthen the underlying drivers of productivity growth. As a result, it has implemented major reform programmes under each of these drivers to address underlying market failures. Recent policy developments in targeting the five drivers of productivity include:

Competition

- competition drives productivity growth by encouraging efficiency, flexibility and the development and adoption of innovation. Since 1997 a number of reforms have been made to the UK's competition regime, including implementing the Enterprise Act 2002. These reforms have allowed the UK to benefit from pro-active and independent competition authorities with stronger powers for investigating and remedying markets and mergers, and punishing cartel behaviour;

- the UK competition regime is now independently ranked among the top three globally[6] and a 2006 review of competition authorities by the Global Competition Review ranked the UK Competition Authorities among the top globally;

[6] Peer Review of Competition Policy (2004), KPMG and the Department of Trade and Industry

Enterprise

- the regulatory and administrative environment affects entrepreneurial activity. The Government is fully committed to reducing the administrative burdens on business and simplifying the current tax system;

- in April 2005 the Hampton review published its report looking into measures to reduce the administrative burdens on business. It recommended the adoption of a risk-based approach to enforcement. This approach to regulation was found to both reduce the burden of regulation on compliant businesses while at the same time maintaining regulatory outcomes;

- recent measures outlined in the 2006 Pre-Budget Report and Budget 2007 to encourage regulators to comply with the Hampton principles at a local and national level include:

    - in November 2006 the Legislative and Regulatory Reform Act received Royal Assent. This provides a statutory Code of Practice that obliges all listed regulators to have regard to the Hampton principles; and

    - the immediate establishment of a **Local Better Regulation Office (LBRO)** and roll out of the Retail Enforcement Pilot in 70 local authorities to improve Local Authorities' approach to Better Regulation.

- disputes in the workplace provide a barrier to productivity and are costly to both employers and employees. The Gibbons Review published alongside Budget 2007 proposes a series of measures to promote early resolution of disputes and reduce the number of tribunal claims. The review recommends repealing the current statutory disputes resolution procedures and replacing them with non-prescriptive guidelines on grievances, discipline and dismissal. A consultation document has been published alongside the Gibbons review;

- the Government is also committed to rationalising business support services. It intends to reduce the number of business support products and services from 3,000 to no more than 100 by 2010. In Budget 2007 the Government announced further measures of rationalisation including the closure of the UK Trade and Investment's "New Products from Britain" services and the DTI's "Grants for investigating innovative ideas". It intends to divert funds from these support schemes to higher performing support schemes;

- Budget 2007 also announced a package of reforms to secure the future of the tax-based venture capital schemes (Enterprise Investments Schemes (EIS); Venture Capital Trusts (VCTs); and Corporate Venturing Scheme (CVS)) following new EC state aid guidelines. The new reforms will mean that from April 2007 venture capital schemes will be accessible only to those investor companies with fewer than 50 employees and an annual investment limit of £2 million. The Government has committed itself to recycling the savings from these to fund enhancements to R&D tax credits;

Science and Innovation

- innovation has a significant effect on productivity through the creation of new technologies and new ways of working. Investment in innovation raises productivity growth by allowing firms that have invested in innovation to improve their productive efficiency and/or the quality of their products. It also has positive spillovers, other firms can take advantage of new investments by emulating these new innovations;

- the Government has put into place a number of measures intended to increase the levels of business investment in the UK; this includes the introduction of Research and Development (R&D) tax credits. So far nearly £1.8 billion in support has been provided through R&D tax credits. Further measures to increase the level of business investment in R&D were announced in Budget 2007. From April 2008 the large company R&D tax credit will increase from 125 per cent to 130 per cent and the enhanced deduction element of the small and medium sized enterprises (SMEs) R&D tax credit will increase from 150 per cent to 175 per cent;

- Budget 2007 included the early 2007 Comprehensive Spending Review (2007CSR) settlements for the Department of Trade and Industry's ring-fenced science budget and the Department for Education and Skills, which together will deliver an average annual growth in science spending of 2.5 per cent in real terms over the CSR period. The DTI science budget settlement builds on previous investments in the science base, delivering positive growth over the CSR period and meeting the Government's ambition to increase investment in the public science base at least in line with the trend growth rate of the economy;

- Budget 2007 announced the Government's intention to agree new targets for the Research Councils to increase the amount of collaborative R&D they conduct in partnership with the Technology Strategy Board (TSB). Following the early recommendations from the Sainsbury review, the Government will introduce a package of measures to enhance the role and scope of the TSB to support collaborative R&D with business. The TSB will have a wider remit to stimulate business innovation. It will now have the power to provide support to all areas of the economy from manufacturing to the arts and creative industries, focusing on those areas that offer the greatest scope for boosting business;

- in the 2006 Pre-Budget Report the Government set out its plans to work in partnership with the Association of the British Pharmaceutical Industry to establish a consortium to develop the use of stem cells in the production of safer medicines;

Skills

- the quantity and quality of skilled labour available in the economy is an important determinant of productivity growth. In December 2006 the Leitch Review published its final report *Prosperity for all in the global economy – world class skills*. It set out the challenging ambition to become a world leader in skills by 2020. The target requires doubling attainment across most levels of qualifications. The Government has welcomed this ambition and is currently investing heavily in improving the current skills profile of the UK;

- since April 2006, the Government has been rolling out a new national service for employers – Train to Gain. This provides firms with free, flexibly delivered training in the workplace for their low-skilled employees. In return, firms are required to give their employees time off to undertake and complete training. This innovative approach is based on the lessons learned from Employer Training Pilots, which showed a positive impact from the pilots on both employers and learners;

- the Leitch Review recognised that a strong, coherent employer voice is fundamental to creating a skills system that is fit for purpose and meets employers' needs. Following recommendations by the Leitch Review, a new Commission for Employment and Skills will be established. In advance of the creation of the Commission, Sir Digby Jones has agreed to take on the role of the Government's Skills Envoy, working with all employers to help build a national consensus on how to improve the UK's skills base;

- improvements in productivity require not just an increase in the stock of skills of the current workforce, but also an improvement in the skills of young people newly entering the labour market. In Budget 2007 a series of measures aimed at improving the skills of young people were announced. These include: extending the Learning Agreement pilots which are currently testing the effectiveness of formal learning agreements, financial incentives and wage compensation schemes, among young people in employment and their employers. Budget 2007 also highlighted its intention to raise the age of compulsory participation in education from 16 to 18;

Investment

- investment infrastructure facilitates the movements of goods and services and influences the location decision of firms. The *Barker Review of Land Use Planning*[7] published alongside the 2006 Pre-Budget Report set out a number of recommendations for improving the speed, responsiveness and efficiency of the current planning system. In May, the Government published a White Paper on the UK planning system. This will build on the recommendations set out in the Barker Review; and

- the Government is fully committed to simplifying the tax system to encourage further investment and innovation. As part of measures to simplify the tax system, the Government has introduced major reforms to the Corporate Tax System. From 2008 the main rate of corporate tax will be cut from 30 per cent to 28 per cent. A simpler two-rate system of capital allowances (CAs) that better reflect economic depreciation will also be introduced; and to refocus the incentives for small companies to invest, the small companies rate will be increased from 19 per cent to 22 per cent between April 2007 and April 2009, while at the same time raising the Annual Investment Allowance available to business.

Risks to Delivery

3.20 Raising UK productivity growth is a long-term challenge; it takes time for reforms to feed through into higher productivity. Moreover, productivity is an overarching goal, which is influenced by many factors both national and international. For this reason the Government has developed a set of yearly indicators centred on the five key drivers of productivity. These should help the Government monitor progress in improving the UK's productivity performance. The indicators also provide early warning signs of where more policy action is needed.

7 http://www.hm-treasury.gov.uk/independent_reviews/barker_review_land_use_planning/barkerreview_land_use_planning_index.cfm

Future Plans

3.21 Future plans include:

- continuing the independent review of science and innovation policies led by Lord Sainsbury. The Sainsbury review aims to take a forward look at what needs to be done to ensure the UK's continued success in wealth creation and scientific policy-making. The Sainsbury Review is due to publish its report in summer 2007;

- taking forward recommendations of the Leitch Review of Skills. In Budget 2006 the Government announced its intention to publish a full implementation plan this summer;

- the Government to publish a Green Paper on raising the age of compulsory participation in education and training to 18. Under this proposal young people between the ages of 16 and 18 will be required to participate either in school, college, work-based learning, or in accredited training provided by an employer. Following the publication of the Green Paper the Government will consult with business on the best way to achieve this objective without placing undue burdens on business;

- the Office of Fair Trading (OFT) is consulting on a discussion paper identifying the key barriers to private actions, including the complexity, uncertainty and cost required in bringing a claim. It is also consulting on options for addressing these barriers. The Government recognises the importance of private action as a useful complement to public enforcement of competition law; and

- Budget 2007 announced future plans to publish a consultation document seeking views from business and other stakeholders on the design of a new simpler business support scheme.

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

PSA 6 – REGIONAL GROWTH

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

> Make sustainable improvements in the economic performance of all English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006, (joint target with Communities and Local Government (CLG) and Department of Trade and Industry (DTI)).

SR2004 target rating – On course
SR2002 target is the same as SR2004

Performance

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

3.24 That is why the Government has committed itself to the regional economic performance target. The headline measure for this target is the trend rate of growth in GVA per capita. This is currently available on a current price basis. Annual GVA per capita data for each region are only available after a 12-18 month lag.

3.25 The trend rate of growth in GVA per capita in each English region will be estimated for the period 2003-08 to measure performance against the first part of the regional economic performance target. The second part of the target will be measured by comparing the average growth rate of regions that currently have above average GVA per capita with the average growth rates for regions that currently have below average GVA per capita for the period 2003-12.

3.26 The Government's approach to regional economic performance involves three strands. Firstly, as outlined in chapter 2, the Government has put in place a macroeconomic framework designed to maintain long-term economic stability and help businesses and individuals plan for the future. Secondly, as described, the Government has introduced microeconomic reforms to address the five drivers of productivity (skills, investment, innovation, enterprise and competition) and to encourage more people to move into work. Thirdly, the Government has sought to devolve significant resources and responsibilities to the Regional Development Agencies (RDAs) to ensure that economic policy design and delivery is responsive to the particular needs and opportunities of each region.

3.27 There is emerging evidence of progress on enhancing regional economic performance and reducing the persistent gap in growth rates between the best and worst performing regions. Between 2002 and 2005, GVA per head growth in the bottom six regions (North West, North East, Yorkshire & Humber, West Midlands, East Midlands and the South West) was 2.1 per cent per annum, the same rate of growth as the top three regions (London, South East and the East of England). This is in contrast to 1990-2002, where the most recent data suggest GVA per head trend growth per annum in the top three regions was 2.4 per cent and in the bottom six regions, was 1.8 per cent[8].

3.28 In 2005, average GVA growth per head for London, the South East and the East of England was 0.9 per cent compared to 1.3 per cent for the remaining six regions.

3.29 Regional GVA data also show that all English regions grew in 2004 and 2005 and that the poorer performing regions narrowed the gap in growth rates with London, the South East and East in 2005. The Government recognises that only a limited assessment of progress is possible using year on year data. A full assessment of trends in regional economic activity and disparities can only be fully determined when a full economic cycle is complete.

3.30 The Government's understanding of regional economic performance is enriched by an appreciation of progress on the underlying drivers of regional growth. With regard to employment, by the end of 2006, employment rates in the top three and bottom six regions were within one percentage point of each other, having been over two percentage points apart in 2002.

3.31 Productivity differentials, however, remain between the best and worst performing regions. London remains the most productive region at nearly 25 per cent over the UK average.

[8]These GVA per head growth rates have been adjusted by a national deflator

3.32 On the drivers of productivity, the skills gap between the top three regions and the bottom six regions – as measured by the percentage of the working age population trained to National Vocational Qualification Level 2 or above – has also narrowed from 3.4 percentage points in 1998 to 1.1 percentage points in 2006. On innovation, there remains a persistent gap in business expenditure on R&D between the best and worst performing regions. Similarly on enterprise, VAT registrations, which are used as a proxy, show a persistent gap between the best and worst performing regions over the 2001-05 period.

3.33 Further information about performance against the drivers of growth and employment is set out in the publication *Regional Economic Performance: Progress to date*[9]. The Government also provides regular monitoring data on performance against target at http://www.dtistats.net/reppsa/200612/tables.htm.

Quality of Data Systems

3.34 Performance against this target is measured through estimates of the trend rate of growth in Gross Value Added (GVA) per capita in each region for the period 2003-08. The gap in growth rates is measured by comparing the average growth rate of regions that had above average GVA per capita with the average growth rate of regions that had below average GVA per capita in 1990-2002 with growth rates for 2003-12. The regional GVA series is produced by the Office for National Statistics and meets all National Statistics quality criteria

Delivery

3.35 Important measures in 2006-07 to deliver the target by stimulating regional economic performance, improving the regional evidence base that informs policy and increasing regional input to national policy, include:

- a review of sub-national economic development and regeneration to enhance the capacity, effectiveness and efficiency of regional and local delivery agencies;
- a programme of transformation for the regional Government Office network has been put in place which will provide for more strategic streamlined Government Offices to support and challenge regional strategies;
- continued input from the RDAs on central Government policy decisions. The English regions submitted advice on how to better tailor spending for economic development to specific regions. This advice will inform the Comprehensive Spending Review. The RDAs also provided input to Budget 2007 around key questions for regional growth: the role of the private sector in promoting economic growth in the regions; regional competitiveness in a global context; and how best to improve evaluation of RDA spend;
- a published National Strategic Reference Framework setting out how the Government will allocate European Structural and Cohesion funds to support regional economic priorities[10];
- implementation of a full regional statistical presence by the Office for National Statistics (ONS) in partnership with the RDAs to support the evidence base for regional policy;
- refreshed Regional Economic Strategies in five English regions. The RDAs have worked with regional and local partners to ensure the review results in a robust, realistic and evidence based strategy that will help the regions make the most of its particular opportunities and respond to its particular challenges;
- an Independent Performance Assessment process has been undertaken by the National Audit Office for each RDA; and
- a refocused Northern Way Growth Strategy with clear and agreed actions to take forward delivery against its top ten investment priorities.

Risks to Delivery

3.36 Potential risks to delivery are as follows:

- external factors have a strong influence on regional economic performance, including wider national and international economic shocks. The Budget and Pre-Budget reports routinely set out the important national economic trends and this should be factored into assessments of regional economic performance that may need to be made in the short run;
- there may be critical gaps in the evidence base which mean there is a focus on policies or deliverables that may not have the greatest impact in achieving required outcomes. Actions are being taken to improve the quality of evidence and analysis to inform delivery of the target going forward, including better use of external academic expertise and improving the Department's ability to measure trade-offs between pursuing national and regional economic policies; and

[9] Department for Communities and Local Government, HM Treasury, Department of Trade and Industry, Regional Economic Performance: Progress to date, December 2006 available at http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/other_docs/prebud_pbr06_odregionalprogress.cfm
[10] Department of Trade and Industry, United Kingdom National Strategic Reference Framework, October 2006 available at http://www.dti.gov.uk/files/file34769.doc

- there is a risk that actions to promote economic development at the regional and sub-regional level are not aligned to wider national policies. Regional Economic Strategies have been successful in articulating the economic vision in each region and there is a need to build on this success to ensure policies taken at all levels are complementary to each other.

Future Plans

3.37 Future plans are as follows:

- as set out in Budget 2007, the Review of Sub-national Economic Development and Regeneration is underway which seeks to explore the opportunities for further releasing the economic potential of English regions, cities and localities, and to respond more effectively to the ongoing challenge of tackling pockets of deprivation;
- as part of the 2007 Comprehensive Spending Review the Government is considering how to use the performance management framework to drive improvements in regional economic performance; and
- ONS has committed to deliver regional deflator series to enable more accurate comparisons of regional growth rates. This will be an important step towards implementing Christopher Allsopp's recommendations on improving statistics for regional economic policy.

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

3.38 There is no PSA target for this Objective. Assessment is based on overall progress.

Performance

3.39 Progress has been made in the following areas in 2006-07:

Financial Inclusion and Capability

- improving access to financial services using the Financial Inclusion Fund (£120 million over three years), through the Financial Inclusion Taskforce, and working with banks to reduce the number of unbanked households and with other agencies to improve financial capability. The Treasury published *Financial inclusion: the way forward* on 28 March 2007, setting out the policy framework for financial inclusion in the next spending period, including a new dedicated Financial Inclusion Fund, continuation of a Financial Inclusion Taskforce, and the establishment of a ministerial working group to prepare a detailed action plan;

- in November 2006, the Treasury commissioned Brian Pomeroy to review Christmas savings schemes following the collapse of Farepak. The review was published on 28 March 2007 and the Government has responded positively to the report and recommendations;

- to assist credit unions lending to higher risk borrowers the Credit Unions Act 1979 was amended to raise the maximum interest rate chargeable from one per cent to two per cent per month;

- publication of the Government's long-term approach to financial capability: setting out long-term commitment to structured goals to promote financial education in schools; increase access to generic financial advice and to focus on financial capability within existing government programmes. Appointment of Otto Thoresen – Chief Executive of Aegon UK – to undertake an independent feasibiltiy study into how best to deliver a national approach to generic financial advice;

Review of Mutuals Legislation

- on 9th November 2006 the Economic Secretary to the Treasury announced a review of the cooperatives and credit unions legislation and some issues in relation to friendly societies. A consultation document is expected to be published shortly;

Unclaimed Assets

- on 20 March 2007 the Treasury published a consultation document on proposals to introduce an unclaimed assets scheme in the UK[11]. A further consultation document was published in May 2007;

Annuities

- a comprehensive paper on Government's pension decumulation policy[12] was published on 6th December 2006 drawing on the latest evidence base. The paper also announced a joint review (with DWP) to improve the operation of the annuity open market option whereby pension savers can shop around providers to get the best annuity deal for their pension fund;

Payment Systems

- innovative and accountable governance arrangements for UK payments systems were agreed in November 2006 in line with the Government's better regulation agenda, and measures giving consumers greater certainty and transparency when paying in cheques were implemented;

- at ECOFIN on 27 March 2007, EU Finance Ministers reached agreement on the draft Payment Services Directive. This aims to create a single EU market in payment services, and support the industry-led project for a Single Euro Payments Area;

UK's Competitiveness as a Financial Centre

- the Chancellor's High Level Group (HLG) on the competitiveness of the UK financial services industry was established and met for the first time in October 2006, and met again in May 2007. The group is examining a wide range of topics related to the future success of the industry, and the scope for Government and industry action;

[11] http://www.hm-treasury.gov.uk/media/658/50/consult_unclaimedasset200307.pdf
[12] "The Annuities Market" 6th December 2006 (http://www.hm-treasury.gov.uk/media/53E/8F/pbr06_annuities_293.pdf)

Better Regulation of Financial Services

- the Treasury is taking steps to ensure that the regulatory environment in the UK supports the industry;

Financial Stability

- the Treasury continues to develop Tripartite Authority (HM Treasury, Bank of England and the Financial Services Authority) frameworks designed to respond to financial crises and major operational disruptions. The tripartite authorities carried out a number of exercises including a major six-week market wide exercise simulating an outbreak of pandemic flu in October and November 2006. This exercise was extremely helpful in preparing the financial services sector for major events and in identifying areas for further work on enhancing resilience;

- the Tripartite authorities have also been working for improvements in the arrangements for handling cross-border financial crises. The Treasury hosted a Financial Stability Forum (FSF) workshop in autumn 2006. The Treasury is also working with other Member States on options for improving crisis management arrangements in the EU following ECOFIN conclusions under the Finnish Presidency;

Terrorism and Money Laundering

- the Treasury has taken significant steps during the course of the year to strengthen public and private sector safeguards against money laundering and terrorist financing. Important reforms have been introduced to deliver a proactive asset freezing regime, including new restrictions on the payment of state benefits to the households of listed persons and reforms to strengthen the Terrorism and the Al-Qaida and Taliban Orders. The Treasury has also agreed to use closed source evidence in asset freezing cases where there are strong operational reasons to impose a freeze, subject to enhanced Parliamentary scrutiny; and

- over the course of the year, proactive action has been taken, on the advice of the police and Security Service, to freeze the assets of terrorist suspects. Steps have also been taken to strengthen the UK's anti-money laundering and counter-terrorist financing controls. The Treasury has published new proposals for strengthening the UK's money laundering regulations in line with international standards and for improving the regulation and supervision of money service business. In February 2007, the Treasury, in collaboration with the Home Office, the Serious Organised Crime Agency and the Foreign and Commonwealth Office, also published a new and updated financial crime strategy designed to safeguard the security and prosperity of the UK from the threat of organised crime and terrorism.

Delivery

3.40 The following contribute towards delivery of this objective:

- work with other Government Departments and Agencies (eg the Tripartite Authority bringing together FSA, BoE and the Treasury; and work with the Home Office, Police and Security Services on financial crime and combating terrorist finance);

- work with the financial sector (eg on Solvency II Directive and in the High Level Group on City Competitiveness) and its users (eg Financial Inclusion Task Force);

- voluntary arrangements (eg basic bank accounts, Payments Council);

- legislation, both primary (eg Investment Exchanges and Clearing Houses Act 2006, Unclaimed Assets Bill) and secondary (eg amendments to the Regulated Activities Order of the Financial Services and Markets Act); and

- direct operational role (eg asset freezing).

Risks to Delivery

3.41 Risks associated with the globalisation of financial markets and regulation include:

- difficulty in achieving objectives using primarily national policy tools while markets – and associated risks – are increasingly global in nature;

- to the extent that rules are set globally or at EU level, the risk that these standards are not optimal for the UK; and

- high mobility of financial firms leading to risk of relocation if the regulatory regime applied in the UK is inappropriate.

3.42 There are also legal risks of review and challenge of the Government's actions.

Future Plans

3.43 Future plans are as follows:

- working in Europe to reform supervisory structures and key Directives (eg Solvency II);
- the Thoresen review will report to the Government around the end of 2007 and the Government will then consider the recommendations to take forward a national approach to generic financial advice;
- following up on the Tripartite Authority's major Market Wide Exercise in 2006 testing the preparedness of the financial services sector for pandemic flu, the FSA hosted a seminar on 23 April 2007. The seminar discussed the work that is underway and lessons learned and a further stock take will take place at the Tripartite annual Business Continuity Conference hosted by the Treasury on 3 July;
- the cross-departmental ministerial working group, chaired by the Economic Secretary, will be preparing the detailed action plan for financial inclusion policy, which will be published after the CSR; and
- the Treasury intends to take continued action to safeguard the UK against the threat of organised crime and terrorism. New money laundering regulations will be published for adoption by Parliament by the end of the year. As announced in the Government's recent financial crime strategy document, the Treasury will also establish a dedicated Asset Freezing Unit that will work closely with the law enforcement and security agencies to increase the expertise and operational focus that the Government is able to bring to bear on asset freezing. Further action will also be taken to identify and tackle international vulnerabilities when the UK assumes the Presidency of the international Financial Action Task Force from July 2007.

BETTER REGULATION

3.44 There is no specific PSA target on better regulation. The Treasury has two roles relating to the better regulation agenda:

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

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

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

3.46 Budget 2007, Pre-Budget Report (PBR) and the departmental simplification plans[13] set out the Government's latest programme. The following achievements have already taken place:

- the introduction of the Legislative and Regulatory Reform Act, which received Royal Assent in November 2006, will help deliver a number of the wide-scale reforms announced in the Better Regulation Action Plan in May 2005 by allowing the Government to deliver reform of outdated or over-complicated legislation more quickly than the Regulatory Reform Act 2001, and enable the mergers of those regulators not currently covered by separate legislation;

[13] http://www.cabinetoffice.gov.uk/regulation/reform/simplifying/plans.asp

- simplification plans, published on 11 December 2006[14], outlined measures to simplify the existing stock of regulation which will result in savings to the private and third sectors of over £2 billion in administrative costs by 2010. Additional policy and public sector savings of £1.8 billion will increase total savings to £4 billion;

- Lord Davidson's review of the Implementation of EU Legislation[14], which the Government accepted in full, found that while the unnecessary over-implementation of EU legislation may not be as widespread in the UK as is sometimes claimed, there are areas in the stock of legislation where regulatory burdens can be removed. The Better Regulation Executive (BRE) will publish revised guidance on transposing EU law for policy makers in the spring. Departments are also taking forward Davidson's specific recommendations, for example the Treasury published a consultation document on removing the insurance activities of freight forwarders from Financial Services Authority regulation on 21 December 2006;

- the Government welcomed the recommendations of the Gibbons Review of employment dispute resolution, published at Budget 2007;

- *Implementing Hampton: from enforcement to compliance*[15], was published in November 2006. The report shows that regulators have started to make progress in relation to Philip Hampton's recommendations on inspections, form-filling, advice, sanctions and mergers and cites examples of best practice. However progress will need to speed up if regulators are to be compliant with the Regulators' Compliance Code, which will come into force on 1 April 2008;

- to incentivise implementation of Hampton at both a national and local level, the Government announced that:

  - the Better Regulation Executive (BRE), together with National Audit Office (NAO), will **assess regulators' performance in 2007** to encourage regulators' adherence to the Hampton principles. The framework for assessment was published in May and the Health and Safety Executive has volunteered to work with BRE and the NAO on the first of the reviews;

  - **the Macrory Review of Penalties** aims to create a level playing field for businesses by giving regulators (once compliant with Hampton's recommendations and therefore operating a risk-based approach to enforcement) a toolkit of different sanctions to ensure there is no incentive for non-compliance;

  - the Cabinet Office is estabilishing the **Local Better Regulation Office (LBRO)** to encourage the implementation of a consistent and coordinated risk-based approach to enforcement and inspection at local authority level. The Chair, Clive Grace, was appointed on 5 April 2007 and, more recently, membership of the Board was announced;

  - **Home and Lead Authority schemes will be put on a statutory footing** meaning that multi-site businesses will be treated corporately facing the same risk-based approach in every one of their branches;

  - **Retail Enforcement Pilot** will be extended to 70 local authorities; and

  - the **Rogers Review**, published at Budget 2007, recommends that Government specify that the five enforcement priorities for local authority enforcement in England are air quality, alcohol licensing, hygiene of businesses, improving health in the workplace and fair trading. The Rogers Review also recommends that animal and public health should be a further, time-limited enforcement priority. The LBRO should refresh these enforcement priorities on a regular basis and recommend them to Government.

Compliance with Regulatory Impact Assessments (RIA) Process

3.47 The Treasury produced 15 final RIAs between 1 April 2006 and 31 March 2007. These are available on the Treasury website.

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

[14] http://www.cabinetoffice.gov.uk/regulation/reviewing_regulation/davidson_review/index.asp
[15] http://www.hm-treasury.gov.uk/independent_reviews/hamptonreview/hampton_update_2006.cfm

Consultation

3.49 The Treasury initiated 26 consultations between 1 April 2006 and 31 March 2007. A full list of these consultations can be found on the Treasury website.

3.50 The Treasury's consultation documents have positively influenced policy formation. For example, the Treasury has published two consultations on the implementation of the Third Money Laundering Directive[16]. The first consultation was on policy options and was published in July 2006, the second was on the proposed draft Regulations and was published in January 2007. This process allowed stakeholders to be fully involved in the Government's implementation of the Directive and is in line with the "engagement" principle of the Anti Money Laundering Strategy.

Better Regulation in Europe

3.51 The Treasury has continued to push for progress for concrete action on the Better Regulation agenda in Europe. The UK played a key role in the call by finance ministers in October 2006 for the European Commission to decisively reduce EU administrative burdens by immediately cutting the burdens they cause. In November 2006 the European Commission responded by producing plans to measure and reduce administrative burdens in the EU and proposed a European-wide reductions target of 25 per cent.

3.52 The UK has continued to drive regulatory reform in Europe and helped to ensure that all 27 Member States and the Commission agreed to a target to reduce administrative burdens arising from EU legislation by 25 per cent by 2012. This complements the UK's own target for administrative burden reduction and will boost the competitiveness of business, especially Small and Medium Size Enterprises (SMEs), which suffer most from over-burdensome regulation.

3.53 The UK is pressing for rapid results and has worked successfully with the Commission in putting together a concrete programme of action. The programme has started with Commission proposals for immediate action to cut 10 specific burdens in the areas of company law, agriculture, statistics, transport and food hygiene. The Commission estimates that these proposed changes would save business in the EU £1.3 billion. This programme will be backed by actions to address the greatest burdens in identified priority areas and the establishment of an Impact Assessment Board to scrutinise and challenge Impact Assessments and improve their quality.

3.54 The principles that will be used to guide burden reduction include the use of a risk-based approach for information obligations and the consideration of exemptions from providing information for SMEs. The UK recognises that more can be done and will continue to promote the use of a risk-based approach to improve the rationale, design and enforcement of regulation.

[16] Available on the Treasury website – www.hm-treasury.gov.uk

4 Promoting Fairness and Opportunity for All

Includes:

Objective II	Increase the productivity of the economy and expand economic and employment opportunities for all
	PSA Target 5 - Employment
Objective IV	Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest
	PSA Target 7 - Child Poverty
Objective VIII	Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies
	There is no PSA Target for this objective.

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

PSA 5 - EMPLOYMENT

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

> As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle[1], demonstrate progress on increasing the employment rate, (joint target with the Department for Work and Pensions (DWP)).

SR2004 target rating – On course
SR2002 target rating – On course

Performance

4.2 The baseline for the SR2004 target is 2005 Q2 (April-June 2005)[2], at which time the seasonally adjusted International Labour Organisation (ILO) employment rate for the working age population of Great Britain (GB) was 74.8 per cent. Latest quarterly data October to December 2006, gives a GB employment rate of 74.6 per cent.

4.3 Given the current position in the economic cycle there is expected to be a rise in employment by the end of the cycle. This is because the Treasury currently estimates that there is a negative output gap meaning the economy is operating below potential. Therefore the employment rate is judged to be below its equilibrium level and is expected to rise, and the unemployment rate is expected to fall, by the time the cycle ends.

4.4 The baseline for the SR2002 target is spring (March-May) 2003, at which time the seasonally adjusted ILO employment rate for the working age population was 74.9 per cent and the unemployment rate for the GB working age population was 5.0 per cent. The data for spring (March-May) 2006 give a GB employment rate of 74.6 per cent and a GB unemployment rate of 5.5 per cent. However, this target is measured over the economic cycle and therefore a final assessment cannot be made until the cycle ends.

4.5 Employment in both the UK and GB is at its highest level since comparable figures began in 1971.

4.6 Additional background on the measurement of this target, including measurement of the economic cycle, is provided in the PSA Technical Note[3].

Quality of Data Systems

4.7 UK labour market figures for employment and unemployment are taken from the Labour Force Survey (LFS) and are published by the Office for National Statistics. The definitions used in the LFS are based on internationally agreed standards set by the International Labour Organisation (ILO).

Delivery

4.8 The Government's policy framework underpinning its welfare to work agenda comprises:

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

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

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

[1] The latest assessment of the economic cycle can be found in Budget 2007 HC 342 available on the Treasury website: www.hm-treasury.gov.uk.
[2] The Office for National Statistics is now publishing Labour Force Survey data on a calendar quarter basis, instead of the seasonal quarterly data previously used. The baseline of this target has therefore been changed and reflected in the PSA Technical Note
[3] Available on the Treasury website, http:www.//hm-treasury.gov.uk

4.11 The New Deal has been fundamental to the success of the Government's labour market policies. Over the last decade, the New Deal has found 1.9 million jobs for people, including 858,000 for young people, 298,000 for unemployed adults and 480,000 for lone parents. This success has contributed to a nearly two-thirds reduction in long-term claimant count since 1997 and a rise of 11 percentage points in the employment rate of lone parents.

4.12 The Government believes that work is the best route out of poverty and is committed to making work pay, by improving incentives to participate and progress in the labour market. Through the Working Tax Credit and the National Minimum Wage, the Government has boosted in-work incomes, improving financial incentives to work and tackling poverty among working people.

Risks to Delivery

4.13 Were there to be a cyclical downturn in the economy prompting a sharp and sustained rise in unemployment, this would place a burden on Jobcentre Plus and increase pressure on welfare to work programmes.

4.14 In a globalising economy, the welfare to work agenda needs to be able to respond flexibly to the changing requirements of both individuals and employers. Failure to do so – and to take advantage of the specialist knowledge, experience and skills of private and third sector organisations, working in partnership with Jobcentre Plus – would put at risk the Government's long term aspiration of reaching an employment rate equivalent to 80 per cent of the working age population.

Future Plans

4.15 Chapter 4 of Budget 2007 describes the further steps the Government is taking to build on this success and further strengthen the labour market, with a long-term vision for extending support to the inactive and those who face particular barriers to work. The challenge now is to build on the successes of the past decade with further steps to deliver employment opportunity for all. The integration of benefits and employment support through Jobcentre Plus has transformed the delivery of welfare to work; this needs now to be complemented by an integrated employment and skills agenda and even more effective active labour market programmes, ensuring that everyone has the opportunity to find and progress in work.

4.16 The Government's approach to ongoing welfare reform is based on five key principles. Informed by the development of active labour market policy over the past decade, these principles will underpin further reforms over the coming years. These principles are that:

- rights and responsibilities underpin the welfare reform agenda;
- employment support should be focused not just on job entry, but also on retention and progression;
- the system should be sufficiently flexible as to allow, where effective, a personalised and responsive approach;
- delivery should be joined up, making best use of expertise across the public, private and third sectors; and
- the important role of regions, cities and localities should be recognised, where appropriate, through devolution and local empowerment.

4.17 An important way to improve performance is to increase the focus on the most successful elements. The Government is committed to building on the success of the New Deal. The challenge is to ensure that those without the basic level of skills needed to compete in the labour market are able to access the training they need, and that everyone who fails to find work in the early stages has the opportunity to build up their skills in the workplace. This needs to be done in a way that both increases the number of people moving into work, and improves their prospects of staying in work and progressing.

4.18 The effective design and operation of the New Deal needs real engagement with employers and with the third sector, to ensure that the support delivered provides the long-term unemployed and the economically inactive with the preparation and training that enables them to meet employers' expectations and requirements. Partnership working between Jobcentre Plus and employers at a local level is critical to making this happen, and the Budget 2007 announcement of Local Employment Partnerships with retailers is an important step towards this.

4.19 The success of the Pathways to Work pilots has demonstrated that, with the right help and support, many people on incapacity benefits can move back into work. Building on Pathways to Work, the Welfare Reform Bill[4], presented to Parliament in July 2006, is a key part of the Government's welfare reform programme. The Bill's main provision is for the introduction of a new integrated and simplified Employment and Support Allowance (ESA), to replace the current system of incapacity benefits for new claimants from 2008.

[4] Available on the Treasury website, http:www.//hm-treasury.gov.uk

4.20 The Government is also committed to ensuring that everyone who wishes to extend his or her working life should have the opportunity to do so. Evidence suggests that remaining in work can increase social inclusion and improve health, and raising employment among older people of working age will be a key element in realising the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population. In line with the European Employment Directive, the Government introduced legislation in October 2006 that outlaws age discrimination in employment and vocational training. The financial incentive to work, meanwhile, has been enhanced through the Working Tax Credit, which includes additional support for people over 50.

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

PSA 7 - CHILD POVERTY

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

> Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020, (joint target with the Department for Work and Pensions (DWP)).

SR2004 target rating - not yet assessed

Performance

4.22 The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. Since 1997, the Government has undertaken a comprehensive programme of reform to the tax and benefit system with the aims of simplifying the system, eradicating child poverty, supporting families, promoting saving, and ensuring security for all in old age. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. Budget 2007 announced the next stage in modernising the tax and benefit system, promoting savings and offering more support for work, families and pensioners.

Tax and Benefit System

4.23 As part of Objective IV, the Government aims to promote a fair, efficient and integrated tax and benefit system. To this end, Budget 2007 announced a package of reforms to the personal tax and benefit system to simplify the system, to tackle child and pensioner poverty, and to make work pay by:

- removing the starting rate and cutting the basic rate of income tax from 22 pence to 20 pence in April 2008, creating a simpler structure of two rates: a 20 pence basic rate and a 40 pence higher rate;
- increasing the upper earnings limit for national insurance by £75 a week above indexation in April 2008 and, from April 2009, fully aligning it with the higher rate threshold – the point at which taxpayers start to pay the higher rate of income tax;
- raising the aligned higher rate threshold and upper earnings limit by £800 a year above indexation in April 2009;
- increasing the higher personal allowances for those aged 65 or over by £1,180 above indexation from April 2008;
- increasing the threshold for Working Tax Credit by £1,200 to £6,420 a year in April 2008, further increasing the incentives to work for families with children and low-income working households; and
- raising the withdrawal rate on tax credits by 2 per cent to 39 per cent in April 2008, helping to retain their current focus.

Child Poverty

4.24 Child poverty more than doubled in the 1980s and early 1990s. The Government's first challenge was to address this underlying increase and then make progress towards its goal of halving child poverty by 2010 on the way to eradicating it by 2020.

4.25 Progress against the target to halve child poverty is measured by two indicators:

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

4.26 For the first measure, low-income households are defined as households with income below 60 per cent of contemporary median equivalised income, before housing costs. This measure is reported in the annual *Households Below Average Incomes* (HBAI) statistics[5]. The 1998-99 baseline for this measure is 3.4 million children[6]. Between 1998-99 and 2005-06 child poverty has fallen in the UK by 600,000, from 3.4 million to 2.8 million. This is a decrease from 26 per cent to 22 per cent of children. Between 2004-05 and 2005-06 the numbers have increased by 100,000[7], from 2.7 million in 2004-05 to 2.8 million in 2005-06. The Budget 2007 decision to uprate the child element of the child Tax Credit by £150 over the above earnings indexing from April 2008 will set child poverty on a renewed downward trajectory by lifting roughly a further 200,000 children out of relative poverty.

[5] Equivalised household income is income which has been adjusted for variations in household size and composition. The 2004 Spending Review child poverty target will be measured according to the OECD equivilisation scale, whereas previously, the 2002 Spending Review target used the McClements scale.
[6] Office for National Statistics
[7] In previous submissions and discussions we stated that the decrease between 1998/99 and 2004/05 on this measure was 600,000 children. This has now been revised to 700,000.

4.27 The first set of data on material deprivation in 2004-05 became available last year, and since then, the Government has been analysing it and will set a baseline and threshold for the measure later this year. As the indicator has not yet been determined, **it has not been possible to assess progress towards PSA target 7**.

4.28 The fall in child poverty in the UK has been the largest percentage point reduction in Europe. If the Government had simply indexed the 1997 tax and benefit system to prices, projections indicate that child poverty would have risen by more than 800,000. Budget 2007 announced that the child element of the Child Tax Credit will rise by £150 above earnings indexation in April 2008. This is part of the wider package of reforms to simplify the personal tax and benefit system and to rebalance it to offer more support for work and families. As a result of these reforms to the tax and benefit system, by April 2009:

- households with children will be, on average, £200 per year better off, and £1,800 better off as a result of all such measures since 1997; and
- households with childen in the poorest fifth of the population will be, on average, £350 per year better off, and £4,000 better off as a result of all such measues since 1997.

Pensions and Savings

4.29 The Government is committed to tackling pensioner poverty, promoting saving for retirement, and helping extend working lives to enable people to meet their retirement income aspirations. Since 1997, the macroeconomic environment has been characterised by economic stability, low inflation and high employment. This has provided the platform on which individuals can now confidently plan for retirement, with more people having the ability and opportunity to save.

4.30 The Pension Credit, launched in 2003, is the foundation through which the Government provides security for the poorest, whilst rewarding those who have built up small savings for retirement. This has helped to lift over one million pensioner households out of relative poverty and over two million pensioner households out of absolute poverty, a reduction of over 75 per cent, between 1996-97 and 2005-06.

4.31 The Government is also committed to supporting pensioners who pay income tax. Increases in the age-related tax allowances will mean that from April 2008, 43 per cent of pensioners overall will pay no tax. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000.

4.32 As a result of the Government's tax and benefits measures since 1997, pensioner households will be on average £1,500 per year, or around £29 per week better off in 2007-08.

4.33 More broadly, the Government seeks to support saving and asset ownership for all across the lifecycle – from childhood, through working life and into retirement. This includes providing adequate incentives for saving through the tax and benefit system – for example, the Child Trust Fund, Individual Savings Accounts (ISAs) and the pensions tax regime all offer opportunities for tax-advantaged savings.

4.34 Pensions tax simplification was introduced on 6 April 2006, sweeping away the existing complex tax regimes and replacing them with a single universal regime for tax-privileged pension savings. The new regime offers greater individual choice and flexibility in when and how people save for their retirement and provides greater transparency, clarity and a reduction in administrative burdens for pension providers and employers.

4.35 Through the Saving Gateway, the Government is exploring the use of matching to encourage saving among lower income households and to promote engagement with mainstream financial services. Evidence from the initial pilot[8], launched in 2002, confirmed that matching could encourage genuinely new savers and new saving.

4.36 A second pilot, which was launched in March 2005, is testing the effects of alternative match rates and contribution limits, initial endowments and the support of a range of financial education bodies. An interim evaluation report, published in July 2006[9], found that participants are overwhelmingly positive about the scheme and the matched payments they receive on their savings, and that participants intend to save regularly into their accounts. The second pilot is now drawing to a close and the final evaluation was published in Spring 2007.

Quality of Data Systems

4.37 Performance against this target is assessed using the annual HBAI report published as National Statistics by DWP.

Delivery

4.38 The Child Poverty Review[10], published alongside Spending Review 2004 outlines the Government's comprehensive strategy for reducing child poverty. This strategy requires action across Government departments in partnership with local government and the voluntary and community sectors. The four main strands of the strategy are:

[8] Incentives to save: Encouraging saving among low-income households, University of Bristol, Personal Finance Research Centre, March 2005.
[9] Interim evaluation of Saving Gateway 2, Institute for Fiscal Studies and Ipsos MORI Social Research Institute, July 2006
[10] Child Poverty Review, HMT, 2004

- work for those who can, helping parents participate in the labour market (see Objective II);
- financial support for families, with more support for those who need it most, when they need it most;
- delivering excellent public services that improve poor children's life chances and help break cycles of deprivation; and
- support for parents in their parenting roles so that they can confidently guide their children through key life transitions.

Risks to Delivery

4.39 The relative low-income measure is a moving target. Therefore the Government will review financial support at Budget and Pre-Budget Reports and will consider measures to reform public services to tackle material deprivation at the Comprehensive Spending Review.

Future Plans

4.40 The Government's Spending Review 2004 target to halve the number of children in relative low-income households between 1998-99 and 2010-11 will contribute towards the long-term target of eradicating child poverty by 2020. Decisions about financial support will continue to be made in Budget and Pre-Budget Reports. The Government will continue to work closely with Local Government and partner organisations to develop and deliver policy through the tax and benefit system and public services through the Comprehensive Spending Review period.

4.41 In May 2006, in response to the Pension Commission's report, the Government published a White Paper[11] that proposed reforms to the state and private pensions systems to address the demographic challenge. The Government is currently in the process of bringing forward legislation to implement the state pension reforms and, in the next parliamentary session, aims to bring forward legislation to implement the private pension reforms. The legislation will:

- introduce a new scheme of Personal Accounts, providing those who do not currently have access to adequate pensions savings an opportunity to contribute to a low-cost savings vehicle (a White Paper[12] was published in December 2006, setting out how these will work and consulting on some of the detail);
- re-link the basic state pension to average earnings from 2012, or in any event at the latest by the end of the next Parliament, subject to affordability and the fiscal position;
- streamline the contribution conditions to the basic state pension by reducing the number of years needed to qualify to 30;
- gradually raise the state pension age in line with life expectancy; and
- streamline the regulatory environment for pensions.

4.42 In order to build on the success of ISAs, the Government announced in the 2006 Pre-Budget Report that it will simplify the ISA regime, make it more flexible for savers and providers and further promote saving by introducing the following package of reforms from April 2008:

- make ISAs permanent beyond 2010;
- guarantee an overall annual investment limit of at least £7,000;
- bring Personal Equity Plans (PEPs) within the ISA wrapper;
- remove the Mini/Maxi distinction within ISAs;
- allow Child Trust Fund accounts to roll over into ISAs on maturity; and
- allow transfers from the cash into the stocks & shares component of ISAs.

4.43 Building on this package of reforms, and in order to encourage further saving in ISAs, the Government also announced in Budget 2007 that it will raise the annual ISA investment limit from April 2008 to £7,200, with an increase in the cash limit to £3,600. The Government will make an announcement on the next steps for the Saving Gateway in summer 2007.

[11] Security in retirement: towards a new pensions system, Department for Work and Pensions, May 2006.
[12] Personal Accounts: a new way to save, Department for Work and Pensions, December 2006.

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

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

Performance

4.45 The Government is committed to promoting sustainable development, which is vital to ensure and maintain a better quality of life for everyone. To achieve this, strong and stable economic growth and social progress must be balanced with action to protect and improve the environment. Progress on sustainable development is reported by the Government against a comprehensive set of sustainable development indicators. These include environmental indicators covering, for example, emissions of greenhouse gases, air quality, river water quality, land use and waste. Progress on these indicators has been generally positive since 1999.

4.46 The impact and effectiveness of policy is also monitored through the Budget and Pre-Budget Report process.

Delivery

4.47 The Treasury delivers against Objective VIII in two main ways. Firstly, by working with other departments to appraise the sustainable development implications of policy proposals. particularly through monitoring PSAs across departments.

4.48 Secondly, the Treasury delivers against Objective VIII by using fiscal instruments, and other instruments where appropriate, to deliver environmental objectives. Environmental taxes and other economic instruments have an important role to play in securing sustainable development, along with regulation and spending policies. The Treasury's approach to environmental taxation was set out in the *Statement of Intent on Environmental Taxation* in 1997[13] and developed further in *Tax and the Environment: using economic instruments*,[14] published alongside the 2002 Pre-Budget Report.

Achievements

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

4.50 In particular, the climate change levy has delivered a significant proportion of UK emissions reductions since its introduction in 2001. An independent evaluation by Cambridge Econometrics estimated that the climate change levy has reduced emissions by a cumulative 16.5 million tonnes of carbon (MtC) up to 2005. Overall, the climate change levy package has delivered carbon savings of over 28MtC whilst – through the National Insurance Contributions cut introduced alongside the climate change levy – helping to shift the burden of taxation from 'goods' (such as employment) to 'bads' (such as emissions).

4.51 The Stern Review into the economics of climate change was published in October 2006[15], detailing the nature of the economic challenges faced and how they can be met in the UK and globally.

4.52 The 2006 Pre-Budget Report demonstrated international leadership by the UK and HM Treasury, including building links with other countries as part of the development of a global carbon market and further steps towards realising carbon capture and storage technology. Following the Pre-Budget Report and the publication of the UK's EU Emissions Trading Scheme (EU ETS) Vision Statement, Treasury Ministers have held discussions with other Member States in order to build consensus about the need for action to tackle climate change and the most effective way to do this.

4.53 Domestically, the 2006 Pre-Budget Report announced increases in air passenger duty and fuel duty as well as measures to encourage the development of the biofuels market. A package of household energy efficiency measures included a stamp duty exemption for zero carbon homes, extension of the Landlords Energy Saving Allowance and further support for domestic microgeneration.

4.54 Budget 2007 built on this by announcing a further package of measures aimed at tackling climate change. In particular, changes to vehicle excise duty rates for the next three years to sharpen environmental signals to motorists to purchase

[13] http://www.hm-treasury.gov.uk/topics/environment/topics_environment_policy.cfm
[14] http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr02/assoc_docs/prebud_pbr02_adtaxenvir.cfm
[15] http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

more fuel-efficient cars were announced alongside increases to fuel duty. The Government also announced its intention to offer help to householders to introduce energy efficient measures, further funding for the Low Carbon Buildings Programme and details of the stamp duty exemption for zero-carbon homes. Measures to tackle other environmental challenges were also announced including increases in the rates of landfill tax and aggregates levy.

4.55 The Treasury also continues to work with other Government departments to ensure the effective implementation of the EU ETS. The EU ETS is the centrepiece of the UK's strategy to tackle climate change. In June 2006 the Government announced the level of the UK cap for Phase II of the EU ETS. The plan includes auctioning seven per cent of permits which will help to increase the effectiveness of EU ETS. In November 2006 the UK was the only country not to have the level of its cap reduced by the European Commission.

4.56 The Government's Energy Review was published in July 2006. The Review formed a comprehensive analysis of UK Energy policy, dealing with the twin challenges the UK faces: energy security and climate change. The Treasury continues to work with other departments on the Energy White Paper, which was published in May 2007, and sets out a package of measures to help the UK meet its climate change objectives, whilst retaining security of energy supply.

Risks to Delivery

4.57 Further pressures on the competitiveness of UK firms, such as a renewed volatility in the world oil market and/or higher energy prices, could increase restrictions on the use of environmental taxes.

Future Plans

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

- working with other departments to take forward the framework for tackling climate change set out in the Climate Change Bill[16];
- as announced in Budget 2007, the Government will launch a competition to demonstrate Carbon Capture and Storage. The Treasury will work with the Department of Trade and Industry (DTI) on the effective running of this competition;
- analysis, as part of the 2007 Comprehensive Spending Review 2007 (2007CSR), to inform future action on managing pressures on the environment and natural resources from modern patterns of production and consumption;
- the Treasury will continue to work with other Government departments to strengthen the robustness of the EU ETS, with the aim of influencing the ongoing Commission review of the EU Directive. The Treasury will also continue to participate in Whitehall discussions aimed at developing the UK's position on the structure and direction of the EU ETS post-2012. This includes establishing the UK's position on the use of auctioning within EU ETS, so that it strengthens the integrity of the scheme whilst also taking account of wider tax revenue and competitiveness considerations;
- over the coming months, Ministers from the Treasury and the DTI as well as the Department for Environment, Food and Rural Affairs will undertake a series of visits to European countries to underline the need to translate Europe's climate change ambitions into policy proposals;
- supporting the work of the review, led by Professor Julia King, working with Sir Nicholas Stern to examine the vehicle and fuel technologies which could help to 'decarbonise' road transport over the next 25 years; and
- working with manufacturers and retailers exploring measures to improve the energy-efficiency of a range of products.

[16] http://www.defra.gov.uk/news/latest/2007/climate-0313.htm

5 Delivering High Quality Public Services

Includes:

Objective VI	Improve the quality and the cost-effectiveness of public services
	PSA Target 9 - Improved Public Services and Efficiency
	PSA Target 10 - Procurement Savings - this PSA target is delivered by the Office of Government Commerce (OGC)
Objective VII	Achieve world-class standards of financial management in government
	There is no PSA Target for this objective

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

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

PSA 9 - Improve public services by working with departments to help them meet their:

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

consistently with the fiscal rules; and

PSA 10 - Deliver a further £3 billion saving by 2007-08 in central Government civil procurement (building on the savings achieved since 2000) through improvements in the success rate of programmes and projects and through other commercial initiatives.

PSA 10 is the specific remit of the **Office of Government Commerce (OGC)** part of the Treasury Group.

PSA 9 - IMPROVED PUBLIC SERVICES AND EFFICIENCY

SR2004 target rating – On course
SR2002 target rating – On course

Performance and Delivery PSAs

5.2 The Government's aim is to deliver world-class public services through sustained investment and reform which ensures value for money. As context, the Treasury's framework for planning and controlling public spending:

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

5.3 The PSA framework has evolved over successive Spending Reviews to a framework characterised by a focus on outcomes and fewer centrally set measures, providing frontline public service professionals with increasing flexibility to deliver the outcomes that are important to the public. The Treasury and the Prime Minister's Delivery Unit (PMDU) continue to work together effectively to assess progress and support the delivery of all departments' PSA targets, though responsibility for delivering the targets rests with the relevant departmental Secretaries of State, as set out in the "Who's responsible" section of each PSA .

Efficiency

5.4 As part of the 2004 Spending Review settlement, departments were set stretching but achievable efficiency targets amounting to over £20 billion a year by 2007-08, in line with the recommendations of Sir Peter Gershon's review *Releasing resources to the front line*. Departments have set out where and how they will make efficiency gains in their Efficiency Technical Notes[2]. A dedicated team in the OGC has been working with Treasury spending teams to achieve efficiency gains by actively supporting and challenging organisations across the public sector to improve their efficiency delivery. The efficiency team reports on progress and delivery directly to the Prime Minister and Chancellor. As a result of OGC's success, efficiency is being mainstreamed as part of routine departmental financial management and the OGC SR2004 efficiency team transferred to the Treasury on 1 April 2007.

Quality of Data Systems

5.5 The data systems underpinning PSA targets are validated by the National Audit Office (NAO). Efficiency Technical Notes set out the measures and methodologies the departments use to assess efficiency gains. These can be found on the Treasury website.

[1] http://www.hm-treasury.gov.uk/documents/public_spending_reporting/public_service_performance/public_service_performance_index.cfm
[2] http://www.hm-treasury.gov.uk/documents/public_spending_reporting/public_service_performance/psr_performance_efficiency_supporting_documents.cfm

Achievements

PSAs

5.6 The Treasury and PMDU have continued to work collaboratively to align and strengthen effort in supporting the delivery of Departments' PSA targets, for example, through the further sharing and spreading of good practice and lessons learnt from delivery.

5.7 Departments are working towards delivery of the PSA targets set for SR2004 and continue to report progress on targets from the SR2002 set. The majority of SR2004 targets were given overall summary assessments by departments in their 2006 Autumn Performance Reports (APRs). Of those, around 75 per cent were reported as being on course. These represent interim progress assessments which can of course vary up to the point a final assessment is made.

5.8 The majority of SR2002 targets were given overall summary assessments by departments in their 2006 APRs. Of those, around 83 per cent were reported as being met or on course. Although the SR2002 period ended in March 2006, data for the full period are not yet available as some targets have a longer horizon than the SR2002 period.

5.9 A report on the data systems for 2005-08 PSA targets for six departments was published by the NAO in December 2006. The report concluded that nearly three quarters of the data systems developed by these departments provided a broadly appropriate basis for measuring progress against their PSA targets. The Treasury remains committed to ensuring that the data used in monitoring and reporting on PSA targets are relevant and reliable. The Treasury will work to ensure that the issues raised in the report are taken forward as appropriate, including in the context of the 2007 Comprehensive Spending Review (2007CSR).

Efficiency

5.10 Departments and local authorities continue to make good progress in delivering their efficiency gains. Budget 2007 reported that annual efficiency gains worth over £15.5 billion had been delivered to the end of December 2006 with gross workforce reductions of 60,591 and 50,888 net reductions following 9,703 redeployments to the front line. In addition, departments have relocated 11,068 posts out of London and the South East.

5.11 The NAO published a second study into the efficiency programme in February 2007 in which it noted clear evidence of positive change with significant improvements to efficiency in public service. The report also noted the good progress made by the OGC in addressing the measurement issues raised in its first report. With OGC's measurement guidance issued in the last year, systems have improved further, embedding a strong emphasis on assuring service quality. The Government expects this progress to continue, and the Treasury's SR2004 efficiency team will do further work to tackle the remaining measurement challenges during the final year of the programme, including encouraging greater use of departmental internal auditors and through further engagement with the NAO and the Audit Commission. Building on the NAO's recommendations regarding the current programme, savings delivered by the 2007CSR value for money programme will be measured net of implementation costs.

Risks to Delivery

PSAs

5.12 The Treasury expects departments to effectively manage and address any risks to the delivery of their PSA targets on an ongoing basis. This informs the Treasury's work with departments to promote and support effective planning and management in the delivery of departments' targets.

Efficiency

5.13 Departments are primarily responsible for delivering their efficiency programmes. Across the programme there are over 300 individual initiatives, and the Treasury expects departments to manage the risks accordingly, using OGC and Treasury support.

Future Plans

PSAs

5.14 The 2007CSR provides an important opportunity to further strengthen the Government's approach to performance management and public service delivery.

5.15 Since the 1998CSR, PSAs have played a vital role in galvanising public service delivery and achieving major improvements to outcomes. The 2007CSR will build on this approach driving ambitious improvements in priority areas while developing the supporting performance management framework, to ensure a user-focused, devolved approach to public service. The performance management framework in the 2007CSR period will include:

- a comprehensive set of Strategic Objectives for each department;

- a focused set of PSAs which articulate the Government's highest priority outcomes for the spending period and will typically span several departments;

- a single cross-departmental Delivery Agreement for each PSA, developed in consultation with front-line workers and users, supported by a basket of national outcome-focused indicators;

- an emphasis on central coordination working in synergy with greater bottom-up accountability, local flexibility and user responsiveness; and

- a premium on the use of high quality, timely data while freeing up the frontline by reducing low value data burdens.

Efficiency

5.16 Regarding efficiency, the Government has already set out its ambition that the continued good progress of the Gershon programme will be built on in the CSR period. Having established the baseline savings ambition of 3 per cent per year across central and local government, Budget 2007 confirmed that all of these savings will be net and cash-releasing to maximise the resources available to improve front-line services and to fund new priorities.

PSA 10 – PROCUREMENT

5.17 The **Office of Government Commerce (OGC)** is directly responsible for PSA 10 which is to:

> Deliver a further £3 billion saving by 2007-08 in central Government civil procurement (building on the savings achieved since 2000) through improvements in the success rate of programmes and projects and through other commercial initiatives.

SR2004 target rating – On course

5.18 Related to this target, OGC has an added responsibility **to improve the success rate of mission critical programmes & projects**.

Performance

5.19 **Against the PSA target**: Initial results indicate excellent progress continues to be made on improving value for money in commercial activities. OGC strongly expects to deliver the SR2004 target with £2.6 billion achieved in the first year, representing 87 per cent of the target.

5.20 This has been delivered via better procurement by Government Departments through direct negotiation with suppliers, improved contract and property asset management, collaborative procurement and reduced process costs, as well as benefits from the OGC Gateway^{TM} review process and the OGC Achieving Excellence initiative.

5.21 **On improving the success rate of mission-critical projects:** OGC has worked with departments to increase the prospects for success of the 17 initiatives defined as Government's Key Programmes, with a total forecast combined delivery cost in excess of £50 billion.

5.22 The OGC has delivered packages of intervention carefully tailored to the needs of the programmes, incorporating independent robust challenge from Non-Executive Board Members and rigorous scrutiny, particularly early on in the programmes' lifecycles. This work has made a strong positive impact, contributing to strengthened governance arrangements, toughened robust approaches to implementation and the appointment of highly skilled programme leadership.

Quality of Data Systems

5.23 Value for money gains are measured by individual departments and through other methodologies. OGC has published detailed methodological guidance to departments, entitled Value for Money Measurement which is available on the OGC website. OGC aggregates the data produced by the methodologies to produce the total.

Delivery

5.24 OGC is an Office of the Treasury, responsible for driving value for money improvements in public procurement and estates management in central government.

5.25 OGC engages with strategically important suppliers, partly through its Supplier Management Initiative, in order to improve value for money on a whole life costing basis by coordinating the public sector's supplier relationship. It represents the UK at the European Union (EU) and helps the public sector apply EU procurement rules here in Britain.

5.26 A new Government strategy launched in January 2007, *Transforming Government Procurement*, set out a clear vision for a procurement function across Government Departments which would deliver high-quality public services and best value for money, and which would support the Government's goals for sustainability and for supporting innovation. OGC is tasked with delivering this transformation, and driving up standards and procurement capability across central Government.

5.27 OGC also supports major programme and project management, which involves complex procurement, and provides guidance on all aspects of programme and project management. A Major Projects Review Group (MPRG) is being established, chaired by HM Treasury, to strengthen the scrutiny provided to large, complex acquisition projects - OGC is principal advisor to MPRG on project deliverability and procurement, and will provide departments with support in addressing any specific issues raised as conditions of the project gaining MPRG approval.

5.28 OGC's executive agency, **OGCbuying.solutions**, plays an important role in OGC's delivery of the procurement target. It provides procurement services to help public sector organisations, and their private sector agents and contractors, achieve value for money from procurement. This can often be achieved by departmental collaboration and aggregation of demand.

5.29 OGCbuying.solutions' operations break down into two major areas of activity, namely Framework Agreements, delivered under the Catalist brand, and Managed Services:

- **Catalist** is a set of pre-tendered framework contracts with a range of suppliers, from which public sector customers can access 500,000 goods and services with ease. A small commission (averaging less than 0.7 per cent) is collected from the suppliers for each sale they make under these frameworks; and

- **Managed Services** are ongoing services with OGCbuying.solutions acting as the 'intelligent customer' to a range of strategic partners, on behalf of public sector customers. The economic model here varies depending on the business area, ranging from commission to traditional purchase and sale at a small margin to cover the cost of managing the service. These managed services include the Government Secure Intranet, Managed Telecommunications Service, travel, energy and eCommerce.

Achievements

5.30 OGC has started to put in place new structures to deliver against Transforming Government Procurement, which will bring about a step-change in procurement standards, effectiveness and value for money achieved across Government.

5.31 Amongst its key achievements since its inception OGC has:

Achieved Value for Money Gains

- helped realise £800 million worth of value for money gains during 2003 through Achieving Excellence in Construction as reported in the March 2005 NAO report. This is due to an increase in projects coming in on budget (from 27 per cent in 1998 to 65 per cent in 2006), and an increase in projects being delivered on time (from 30 per cent in 1998 to 60 per cent in 2006);

- introduced through OGCbuying.solutions the BT Premier Value scheme, offering BT's best permanent voice call rates to the public sector due to the guaranteed volumes that collaboration brings, where users save between 10 and 30 per cent on their telephone bills. Improvements in the mobile telephony framework contract have led to an increase in users from 250,000 to 700,000 since 2003, earning £16 million in savings this year;

- through OGCbuying.solutions, ran 185 e-auctions to a value of nearly £2.7 billion, and e-tenders to a value of over £4.4 billion with 19,000 suppliers and 1,250 buyers;

Supported Collaborative Procurement Across Government

- made collaborative procurement a reality and delivered over £370 million of savings by leading with departments on deals such as the Department for Work and Pensions fleet vehicles deal. More collaborative deals had been made available to public sector organisations by the end of the financial year, including a Home Office led deal for temporary labour, National Health Service Purchasing and Supply Agency contracts for tyres and vehicle leasing, a Police Information Technology Organisation-led contract for vehicle windscreens, and an OGCbuying.solutions' framework for the purchase of electricity;

Improved Performance in Procurement and in Projects

- completion of over 2000 OGC Gateway™ Reviews since February 2001. The Gateway process has also achieved significant value for money savings (VFM) - since 2003 over £2.5 billion VFM has been achieved within central civil Government. Further VFM is being achieved in the wider public sector through OGC authorisation of Public Private Partnerships Programme (4Ps – a provider with local authorities to arrange gateway reviews). The National Health Service and Ministry of Defence to conduct their own Gateway Reviews. Adoption of the Gateway process is now being considered as best practice by other governments worldwide – OGC gives authorisation to ensure the standards of the Gateway process are maintained and Australia is nearest to achieving authorisation;

- ran a series of strategic engagement forums with the top thirteen information systems services suppliers, using agreed objective performance measurement data, to improve project delivery and long term value for money. This is to be extended to the software and professional services markets;

- used PRINCE2 (a project management tool) and ITIL (an IT service management tool), to help departments and local authorities to manage programmes and projects, and follow IT best practice. These are increasingly being adopted more widely in the public and private sector around the world; and

Improved Property Asset Management

- launched High Performing Property, the Government's strategy for achieving a significant transformation in the way that the Government estate is managed and used over the next five years, with the expectation of achieving annual savings of between £1 billion and £1.5 billion by 2013.

Risks to Delivery

5.32 The residual risk to delivery of this PSA target is small, given achievements against this target to date. But delivering the Transforming Government Procurement strategy clearly will be a major challenge. OGC will be at the centre of the reform having strong powers to lead the government procurement community. Success will also depend on government departments raising capability and acting collectively rather than just achieving their own organisational priorities.

Future Plans

5.33 Good procurement is essential to good public services, from buying goods and services that work as they are supposed to, to achieving savings that can be ploughed back into front-line services. The public sector spends £125 billion per year on procurement, from everyday items such as pens and paper, to major construction projects and key initiatives. A further £6 billion a year is spent on running its office estate. Effective procurement is at the heart of Government's ability to deliver effective services.

5.34 The Government's vision is a procurement function that reliably and consistently delivers high quality public services whilst achieving long term value for money, supports the Government's sustainable development goals, and is better able to take advantage of innovation to transform service delivery where appropriate.

5.35 In relation to the new Government strategy launched in January 2007, *Transforming Government Procurement,* the OGC will:

- set out the procurement standards departments need to meet;

- monitor departments' performance against them, and ensure remedial action is taken where necessary;

- make sure that people with the right skills are in the right jobs with the right incentives;

- demand departmental collaboration when buying common goods and services; and

- work closely with the Major Projects Review Group to ensure that the most complex projects are subject to high standards of scrutiny and support when the business case is approved, and before proceeding to tender and contract signature.

5.36 In line with this redefined remit, the OGC will be a smaller, higher-calibre organisation, able to lead and command the respect of the government procurement community. The OGC remit will be narrowed to focus on procurement and estates management in central government, where its levers to effect change are greatest. But the OGC will continue to make its services available to the wider public sector where this can be done without detriment to its core work on central government.

5.37 In its work with the new Major Projects Review Group, OGC will be providing advice on project deliverability and procurement, to ensure that these large, complex acquisition projects are subjected to greater scrutiny. Building on an enhanced Gateway review process, OGC will bring specific skills and experience to review these projects at the key approval points in their lifecycle, and advise MPRG on project deliverability and procurement. Where MPRG requires, as a condition of approval, specific issues to be addressed by particular stages in its procurement, OGC will provide the department with additional support, or help it get specialist support from elsewhere, if necessary.

5.38 OGCbuying.solutions will align itself closely with the OGC and the Government procurement reform strategy. OGCbuying.solutions' successes to date demonstrate its future potential, and its new Chief Executive will produce a new strategy demonstrating clearly how this will be realised. OGCbuying.solutions' experience in establishing government-wide procurement contracts means that it is well placed to become the Government's principal deliverer in its single approach to sourcing, but it will need further to transform itself to demonstrate that it offers the best option. Deals like OGCbuying.solutions' mobile phone framework and the DWP fleet vehicles contract must be more commonplace, with their usage more widespread and the subsequent savings more substantial. To meet this challenge, OGCbuying.solutions will further strengthen its own capacity in category and contract management, and supplier and customer relations, passing the resulting benefits back to its customers through a more efficient and effective service driven by procurement best practice.

5.39 More detail on the activities and achievements of the OGC may be found on the OGC website at: **http://www.ogc.gov.uk/** and at **http://www.ogcbuyingsolutions.gov.uk/**.

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

5.40 There is no PSA target for this Objective. Assessment is based on overall progress. The programme priorities for the year, as set out in last year's Departmental Report, have been delivered.

FINANCIAL MANAGEMENT

5.41 Achieving world-class financial management in government involves delivering 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.

5.42 These were the main "common themes" emerging from the Financial Management Reviews of departments carried out during 2004-05, and were highlighted in the Memorandum submitted by HM Treasury to the Treasury Select Committee (TSC) in April 2006.

5.43 This chapter provides a further update on progress since the April 2006 TSC Memorandum against these "common themes" and the associated projects designed to improve financial management in government.

Performance

5.44 The Treasury has worked collaboratively with departments to reinforce the drivers of world-class financial management in the 2007 Comprehensive Spending Review process by revising the performance management framework in government, pursuing an ambitious and far-reaching value for money programme and adopting a more strategic approach to asset management and investment decisions.

5.45 At the individual department level, the Treasury has followed up on a department-by-department basis the original Financial Management Reviews carried out in 2004-05 in respect of the main spending departments, with one-to-one meetings with Permanent Secretaries and department Finance Directors. Finance Directors (FDs) have also been engaged, and supported, in improving financial management in their own departments through regular meetings of a Working Group comprising FDs of the largest spending departments, as well as the annual Financial Directors' Conference and other cross-government FD events. There has been active Treasury involvement in the programme of capability reviews being led by the Cabinet Office to drive the same Financial Management messages through the 'leadership' agenda.

5.46 The Financial Management Change agenda was presented to the top financial management advisers to government, and their support elicited in helping to develop common best-practice guidance for departments. Four advisory panels of external experts have been established to examine ways of improving performance management, corporate structures, finance skills and best practice, with a view to completing their work in summer 2007. The Treasury is grateful to these advisers for their time and expertise, freely given.

5.47 Within this overall framework, there have been significant developments against each of the key "common themes" outlined above. These developments include:

Corporate Structures and Governance

- a new ethical guide (working title *Managing Public Money*) to replace the existing *Government Accounting* has been drafted and circulated for comment to Permanent Secretaries. Publication of the new guide is scheduled for late summer 2007;
- the Treasury has participated in, and supported, a cross-government working group of senior officials examining barriers to clear lines of responsibility and accountability for delivering public services in an effective way;
- the Treasury has continued to support the Permanent Secretaries' Management Group sub-Committee on Risk. Volume 2 of *Risk: Good Practice in Government* was published in November 2006 and three guidance booklets on risk appetite have been produced: *Thinking about your risk:* dealing with setting and communicating risk appetite; *Thinking about risk* covering management of risk appetite; and a practitioner's guide. These are all available on the Treasury website;

- the Treasury secured the necessary statutory power in the Companies Act 2006 to allow the Comptroller and Auditor General to audit all publicly owned companies;

- the Treasury successfully defended the UK's position on charging for certain government information (eg Ordnance Survey maps) under the EU Directive Inspire;

- the *Fraud Report 2005-06*[3] published in November 2006 highlighted failures of control mechanisms in departments, thus providing learning material to improve governance structures and behaviours;

- following an extended period of consultation with departments and other stakeholders, a revised Audit Committee handbook was published in March 2007[4];

- a framework to help departments or stakeholders assess the quality of internal audit was produced in December 2006 and a competency framework for internal audit for use as part of Professional Skills for Government was completed in March 2007;

People Skills – Non-Finance Staff

- October 2006 saw the launch of *Finance Skills for All* – comprising electronic, classroom and master-class training products for all departments – as part of a concerted marketing and communications campaign to increase awareness of the need for financial management skills. The Audit Commission is now considering how this may be adapted for use in the wider public sector;

People Skills – Finance Professionals

- significant progress has been made in appointing professionally qualified Finance Directors in departments. As at March 2007, over 91 per cent of government resource spend fell under their direct control. At that date, of the major departments, only the Ministry of Defence had yet to appoint a qualified Finance Director;

- a third cohort of senior managers training for a professional finance qualification with the Chartered Institute of Management Accountants (CIMA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) is underway. By February 2007, three department Finance Directors had gained this qualification;

- a pilot Finance Option was launched across Whitehall as part of the 2006 In-Service Fast Stream competition, allowing candidates to study for an accountancy qualification. The scheme has attracted 17 successful candidates from a number of major departments. Nominations are now being sought for the 2007 Finance Option;

Data Processes and Management Information

- work is well advanced on preparation of a new Financial Reporting Manual based on International Financial Reporting Standards;

- the Treasury has continued to support and encourage departments in improving the quality and timeliness of their resource accounts. 42 of 49 departmental resource accounts for 2005-06 were laid before Parliament prior to the summer recess (compared with 25 in 2004-05 and 10 in 2003-04), demonstrating a substantial improvement in systems and finance skills in departments;

- regrettably, four accounts received 'limitation of scope' audit qualifications in 2005-06 (see Table 5.1): the Revenue and Customs Prosecution Office (RCPO), the Armed Forces Pension Scheme (AFPS), the Home Office (HO) and the Department for Work and Pensions (DWP). The RCPO and the HO qualifications were attributed to insufficient or limited audit evidence available to support year-end accruals and expenditure figures in their respective accounts. In the case of the AFPS, the qualification related to insufficient evidence to support provisions of compensation. DWP's continuing qualification relates to a regularity issue related to the level of estimated fraud and error in their accounts, and a limitation of audit evidence available to support recorded benefit overpayment balances;

[3] www.hm-treasury.gov.uk/media/D18/C1/fraud_report2005-06.pdf
[4] http://www.hm-treasury.gov.uk/media/4C8/3C/auditcommitteehandbook140307.pdf

Table 5.1: Resource Accounts

Financial Year	Qualified Accounts (a)	Type of Qualification (b) Disclaimed opinion/nil opinion	Adverse opinion	Disagreement/ limitation of scope	Regularity	Excess Vote
2001-02	16	-	-	6	3	10
2002-03	8	1	-	2	1	6
2003-04	4	-	-	2	2	2
2004-05	2	1	-	2	1	1
2005-06	6	-	-	4	1	2

Notes
(a) The number of accounts qualified does not necessarily equal the total of all types of qualification because some accounts were qualified for more than one reason.
(b) 'Disclaimed' or 'adverse' opinions imply major disagreement between the auditor and the body over the content of the accounts or an inability to substantiate significant areas of the accounts. 'Disagreement' over an item in the accounts, or stating that the auditor was unable to form a view on an item ('limitation of scope'), may imply that a serious issue remains unresolved, but generally implies the issues are not pervasive throughout the accounts. The auditor will also issue a qualified report if the expenditure was in excess of Estimates (an 'Excess Vote') or not for the purposes intended (a 'regularity qualification').

- dry run Whole of Government Accounts (WGA) for financial year 2005-06 were produced in March 2007, with the underlying procedures reviewed by the NAO;
- building on the implementation in 2006 of the Combined Online Information System (COINS) for public finance data, substantial progress has been made in developing enhanced monitoring facilities for the Treasury spending control function and in agreeing action plans with major spending departments to enhance data quality; and
- training for users of COINS was rolled out to departmental finance teams and Treasury spending teams. This was accompanied by enhanced 'analytics' training for spending teams and the organisation of improved internal Treasury collaboration on the interpretation of in-year data from departments.

Delivery

5.48 The core of Objective VII is to integrate numbers into the management process to improve economy, efficiency and effectiveness. This requires embedding financial management skills at all levels in government, alongside enhanced governance, risk and reporting frameworks, in order to improve decision-making and delivery of planned outcomes.

5.49 Measures in place to secure further improvements in UK public sector financial management (FM) include:

- implementing standards of good practice for corporate governance and resource management in central government departments;
- reviewing and taking action to improve key aspects of financial management processes in departments;
- maximising the impact of the risk management agenda;
- providing training and development programmes to assist budget holders in improving financial planning and decision-making;
- strengthening financial professional skills throughout government;
- using the single integrated COINS system to enhance central review of financial data from departments, and action on that data; and
- improving the quality and timeliness of financial reporting, including developing accounts for the whole UK public sector.

Risks to Delivery

5.50 A lack of cooperation by departments in taking forward the FM Agenda would put at risk delivery of Objective VII. This is addressed through high-level contacts between Treasury and departments to drive forward the various aspects of improved financial management, reporting and governance. Ultimately, progress is kept on track through communication at Ministerial level.

5.51 Production of Whole of Government Accounts faces challenges in respect of data quality and possible audit qualification. These are being addressed by working with data providers to resolve quality and accounting policy issues and through early engagement with the National Audit Office and others. A further challenge remains in achieving coherence of accounting policies between central and local government.

5.52 Disruption to business through, for example, loss of office premises or a flu pandemic is addressed in detailed business continuity plans that provide for alternate office accommodation, home working and the focus of staff efforts on essential work. Plans are regularly tested and evaluated.

Future Plans

5.53 The main overall priorities for the year ahead under Objective VII are:

- continuing to embed and implement financial management disciplines in the context of 2007CSR;
- delivery of common best practice guidance to departments through the work of the four advisory panels of external experts;
- continuing the follow up to the FM Reviews carried out in 2004-05; and
- continuing a programme of communication with senior officials and Ministers to reinforce the importance of financial management and risk.

5.54 In addition, specific priorities for the year ahead under the "common themes" identified above are:

Corporate Structures and Governance

- publishing and publicising the new ethical guide to replace *Government Accounting* – late summer 2007;
- reviewing Government Internal Audit Standards – by March 2008;

People Skills – Non-Finance Staff

- continuing to monitor take-up and thus encourage departments to use the "F*inance Skills for All*" training to strengthen finance skills in government;
- investigating the finance skills needs of the "top 200" senior civil servants and looking to supply specific training/mentoring;

People Skills – Finance Professionals

- enhancing the community of Finance Professionals in Government to share best practice and deepen professional capacity and capability in departments;
- better engaging with the wider public sector to share best practice in the FM Agenda;
- establishing improved online facilities for exchanging information and capturing key data on finance staff as part of development of the Government Finance Profession website;

Data Processes and Management Information

- examining ways to achieve better alignment of the budgeting, Estimates and accounting frameworks;
- publishing the *Government Financial Reporting Manual* (FReM) for 2007-08 and, for 2008-09, a new FReM based on EU-adopted International Financial Reporting Standards adapted as necessary for the public sector;
- reviewing resource and other accounts for clarity and compliance with the FReM;
- designing a new consolidated statement of EU expenditure;
- further developing Whole of Government Accounts and converging local and central government accounting practice; and
- completing COINS business process reviews.

6 Managing Ourselves

Includes:

- Governance
- Corporate Services

GOVERNANCE

6.1 The Treasury Group complies with the provisions in the Corporate Governance Code of Good Practice. Building on work initiated in 2005-06, the focus of corporate governance in 2006-07 has been on continuing to enhance the oversight of the Treasury Board across the whole of the Treasury Group.

6.2 The Statement on Internal Control (see page 104 of Section 2) is a formal report of the Treasury's governance structure and control systems, and is reviewed as part of the National Audit Office (NAO) audit of the Resource Accounts.

Treasury Board and Committees

6.3 The Treasury Board takes decisions on strategic matters that affect the whole of the Treasury Group. The Board's Committees have group compositions to take decisions on relevant group issues.

6.4 Details of the Board and its committees can be found on pages 18 and 19 of Chapter 1.

6.5 The Treasury Board's aim is to lead a Treasury that delivers its objectives and targets now and in the future. It meets eight times a year. The Board has a programme for annual evaluation of its remit and performance, which it last conducted in spring 2006.

6.6 Executive membership of the Board during 2006-07 was as follows:

- Nicholas Macpherson – Permanent Secretary and Chair;
- John Oughton – Chief Executive of the Office of Government Commerce;
- Jon Cunliffe – Second Permanent Secretary and Managing Director, International and Finance;
- Sam Beckett – Director of Operations;
- Michael Ellam – Director of Policy and Planning;
- Mary Keegan – Finance Director and Managing Director, Government Financial Management;
- John Kingman – Managing Director, Public Services and Growth;
- Mark Neale – Managing Director, Budget, Tax and Welfare; and
- Jonathan Stephens – Managing Director, Public Services (to September 2006).

6.7 Non-executives play a full role on the Board providing challenge and support to the department. During 2006-07, the Treasury Board non-executive members were as follows:

- Sir Peter Gershon CBE is an independent member. He is Chairman of Premier Farnell plc, General Healthcare Group Limited and Symbion Limited. Since he stood down as Chief Executive of the Office of Government Commerce in March 2004 he has no executive responsibilities in central government;
- Stella Manzie OBE is an independent member. She is Chief Executive of Coventry City Council;
- William Sargent is an independent member. He is joint Chief Executive of Framestore CFC and, since September 2005, has been the Chairman of the Better Regulation Executive which operates within the Cabinet Office;
- Sir David Varney is an independent member. He was Chairman of Her Majesty's Revenue and Customs until the end of August 2006. He was then the Chancellor's Adviser on service transformation until January 2007. Since March 2007, he has been leading a review of tax policy in Northern Ireland. He is a non-executive member of the Civil Service Steering Board; and
- Sir Nicholas Stern was a non-executive member of the Board until 31 March 2007. He was Head of the Government Economics Service and adviser to the Government on the economics of climate change and development.

6.8 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, have ad hoc meetings with Treasury staff, 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 and the Board holds a meeting with a Treasury Minister each year.

6.9 Each quarter, the Board reviews a report of progress on delivery of the department's key objectives, risks and resources.

6.10 The Board devolves decision making on day-to-day issues to its supporting committees (detailed later in this chapter).

6.11 Matters reserved for Board decision include:

- setting corporate plans and monitoring performance and resource use against them;
- monitoring arrangements for leadership development and talent management, including considering succession planning arrangements to and within the SCS;
- approval of the Treasury's action plan in response to the Treasury's regular staff attitude survey; and
- taking specific decisions following referral from one of the Board's Committees.

6.12 A short summary of discussions at each Board meeting can be found on the Treasury's website[1] and minutes are available to staff on the Treasury intranet.

Board Committees

6.13 The Board is supported by a **Group Executive Committee** (GEC), which provides a forum for decision-making on urgent Group-wide issues required between Board meetings and acts as a formal programme board for the department's Comprehensive Spending Review programme. The GEC meets 11 times a year. Members in 2006-07 were:

- Nick Macpherson, Permanent Secretary and Chair;
- Jon Cunliffe, Second Permanent Secretary;
- John Oughton, Chief Executive of OGC;
- Alison Littley, Chief Executive of OGCbuying.solutions;
- Robert Stheeman, Chief Executive of DMO;
- Mary Keegan, Finance Director; and
- Sam Beckett, Director of Operations.

6.14 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.

6.15 The **Group Operations Committee's** purpose is to ensure that the Treasury Group's corporate services support the delivery of Group business. It advises the Board of major operational issues requiring a Board decision. The Group Operations Committee is chaired by Mark Neale, Managing Director of Budget, Tax and Welfare, and meets 11 times a year.

6.16 The **Group Finance Committee's** purpose is to ensure good financial management in the Treasury Group including monitoring monthly financial information. It advises the Board on major financial decisions including resource planning and allocation. The Group Finance Committee is chaired by Mary Keegan, Finance Director, and meets 11 times a year.

6.17 The minutes of the Operations and Finance committees are made available to staff on the Treasury intranet.

6.18 In previous years, the three separate organisations of the Treasury Group had separate Audit Committees. Following agreement from the Treasury Board in October 2006, two Group-wide audit committees were established: the **Group Resource Audit Committee** and the **Exchequer Funds Audit Committee**.

6.19 The **Group Resource Audit Committee** supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities on the Treasury Group's processes for risk, control and governance, related to the Group's Resource Account. Members of the Committee are appointed 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. The current membership of the Committee is:

- 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.

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

6.20 Group Resource Audit Committee meetings are also normally attended by:

- the Permanent Secretary;
- the Chief Executive of OGC;
- the Chief Executive of DMO;
- the Chair of the Exchequer Funds Audit Committee;
- the Treasury Group Finance Director;
- the Group Head of Finance and Procurement;
- the Group Head of Internal Audit;
- the Treasury Risk Improvement Manager; and
- a representative of the external auditors – the National Audit Office.

6.21 The Group Resource Audit Committee meets the NAO and the Group Head of Internal Audit prior to each committee meeting without those additional attendees listed above. The Group Resource Audit Committee met for the first time on 8 December 2006, and will meet four times a year.

6.22 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 Contingencies Fund. Members of the Committee are appointed 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 current membership of the Committee is:

- Colin Price, 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, Director General Finance and Strategy at the Department of Trade and Industry.

6.23 Meetings of the Exchequer Funds Audit Committee will normally be attended as relevant by the appropriate Accounting Officers and other officials, including:

- the Accounting Officer to the Consolidated Fund and National Loans Fund;
- the Exchange Equalisation Account Accounting Officer;
- the Contingencies Fund Accounting Officer;
- the Debt Management Account Accounting Officer;
- the Chair of the Group Resource Audit Committee;
- the Group Head of Internal Audit;
- the Head of Internal Audit for the Exchequer Funds; and
- a representative(s) of the external auditors – the National Audit Office.

6.24 The Exchequer Funds Audit Committee met for the first time on 23 January 2007, and will meet four times a year.

6.25 This move towards a Group-wide approach to oversight of audit and risk matters reflects an increasing requirement for stronger corporate governance of the Group as a whole, in line with cross-Government corporate governance standards. As part of this process, a new Group Head of Internal Audit, Chris Butler, was appointed in autumn 2006. Chris is also one of the nominated officers for the Treasury's whistleblowing policy and he has direct access to the Chairs of both the Audit Committees.

6.26 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 2005-06. A review of the new audit arrangements will be conducted in 2007-08.

Other Committees

6.27 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.

6.28 In the Treasury, an **Executive Management Group** (chaired by the Permanent Secretary and consisting of the Managing Directors, Director of Operations and Director of Policy and Planning) meets weekly and makes management decisions required between Board meetings on issues affecting the Treasury.

6.29 In 2006-07, OGC had an interim board during the period of transition leading to the launch of *Transforming Government Procurement* in January 2007. The Board was chaired by the Chief Executive of OGC and met 11 times a year. Its three non-executive directors, who come from the private sector, actively participated in meetings, providing continuity and support to the Chief Executive. Since April 2007, new governance arrangements have been put in place to provide strategic direction and collective leadership of OGC. Until the appointment of a new Chief Executive, Peter Fanning is chairing the Board as acting Chief Executive, with William Jordan, the acting Deputy Chief Executive, chairing those occasions when the Board meets as an Operations Committee. The Executive Directors who sit on the Board are also filling their roles on an interim basis. The three non-executive directors continue to provide support to the acting Chief Executive.

6.30 DMO's Managing Board is responsible for strategic operational and management issues. It is chaired by the Chief Executive of the DMO and comprises three Executive Directors and three Non-Executive Directors, including a Treasury representative, and meets approximately every six weeks.

Changes since 31 March 2007

6.31 On 31 March 2007, John Oughton retired as Chief Executive of the OGC and is no longer a member of the Treasury Board. Peter Fanning was appointed as acting Chief Executive of the OGC with effect from 1 April 2007 and is serving as an interim member on the Treasury Board. Sir Nicholas Stern also left the Board on 31 March 2007 on his departure from the Treasury.

6.32 In June 2007, Mary Keegan will step down as Group Finance Director, to be replaced by Louise Tulett. Mary will retain her responsibilities as Head of the Government Finance Profession.

Relationships with Arms-Length Bodies

6.33 The following are arms-length bodies of the Treasury:

Bank of England

6.34 The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998).

6.35 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 Chancellor appoints the chairman of NedCo.

6.36 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 defining the economic policy of the Government. The Chancellor appoints four members of the MPC.

6.37 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 Bank of England can be found on its website[2].

Royal Mint

6.38 The Treasury has both a shareholding and a customer relationship with the Royal Mint.

6.39 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 Financial Secretary to the Treasury (FST) on the Royal Mint's financial performance - both achieved and prospective - twice each year. It also agrees governance arrangements (including board appointments) and performance targets with the FST. No member of staff from the Treasury or Shareholder Executive sits on the board of the Royal Mint.

6.40 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[3].

[2] http://www.bankofengland.co.uk
[3] www.royalmint.com

OGCbuying.solutions

6.41 OGCbuying.solutions is a trading fund and an Executive Agency of the Office of Government Commerce (OGC), which is itself an Office of the Treasury. The OGC Chief Executive is on the Treasury Board, approves OGCbuying.solutions' corporate plan, and recommends its key performance targets to the Financial Secretary to the Treasury.

6.42 The relationship between the Treasury and OGCbuying.solutions, much of which is conducted through OGC, is laid out in an Agency Framework document which is subject to periodic review.

6.43 The management of OGCbuying.solutions' 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 Board, the Treasury Permanent Secretary's chairmanship of the OGC Procurement Council, meetings with the Treasury Permanent Secretary and close working relations between OGC and Treasury's Corporate & Private Finance team. More information on OGCbuying.solutions can be found in Chapter 5 of this report.

Partnerships UK (PUK)

6.44 Partnerships UK (PUK) is the successor body of the Treasury Taskforce. It was created in 2000 as a central support body for the UK's Private Finance Initiative with a specific public sector mission. The private sector has a 51 per cent majority shareholding in the company, and the public sector has a 49 per cent investment (the Treasury 44.6 per cent, Scottish Executive 4.4 per cent).

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

6.46 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.

6.47 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.

6.48 The Treasury's obligations in relation to risk management are covered through two arrangements; one 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, currently Claudia Arney (the Treasury) and Peter Schofield (ShEX) 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.

6.49 The Treasury also coordinates the Advisory Council, which is currently chaired by HM Treasury's Permanent Secretary, and consists of representatives from Government Departments, 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[4].

Pool re

6.50 Pool re is responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain. 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[5].

Statistics Commission

6.51 The Statistics Commission is the Treasury's only non-departmental public body. It is funded by Grant in Aid from the Treasury, which is the subject of a Financial Memorandum. As set out in the Framework for National Statistics (2000), the Statistics Commission is independent and has freedom in the way it operates. There is no Treasury representation on the Statistics Commission Board.

6.52 The relationship between the Treasury and the Statistics Commission is conducted in accordance with a Financial Memorandum and a Management Memorandum (which together set out the broad framework under which the Statistics Commission operates). It has flexibility to determine how it spends its resources and how it selects and deploys its secretariat.

[4] www.partnershipsuk.org.uk/index.asp
[5] www.poolre.co.uk

6.53 The Treasury's obligations in relation to risk management are met via informal, quarterly liaison meetings between the Chief Executive of the Commission and the Treasury's Director of Macroeconomics. The Treasury Board is informed of the Commission's work on a consultative basis, including through the opportunity to consider the Commission's work programme and Annual Report to Parliament. More information on the Statistics Commission can be found on its website[6].

CORPORATE SERVICES

6.54 In order to deliver its strategic objectives as a strong and professional economics and finance ministry, the Treasury requires effective and efficient corporate services to support it.

6.55 In Budget 2006, the Treasury Group agreed a settlement of 5 per cent reduction in real terms each year from 2008-09 to 2010-11. To build on the efficiencies already achieved over the 2004 Spending Review period, and as part of the Treasury Group's response to the 2007 Comprehensive Spending Review, a series of zero-based reviews of corporate services were undertaken across the Group. These reviews have led to the establishment of a Group Shared Services (GSS) programme to transform corporate services in the Treasury Group.

Transforming Corporate Services

6.56 The GSS programme has looked at opportunities for realising economies of integration and scale from sharing key corporate services between the Treasury Group members. As a result, a decision has been taken to merge the key OGC and core Treasury corporate services teams of:

- Information Services and Facilities;
- Human Resources (HR);
- Internal Audit; and
- Finance and Procurement.

6.57 Group heads of each of these service areas have been appointed to take forward the transformations, and rationalisations of scale and systems are taking place to optimise savings and improve the balance of staff resource deployed on frontline activities. Services will become streamlined and standardised across the Group, and will be quicker, simpler and more accessible for users. 68 OGC corporate service staff transferred to GSS on 1 April 2007. They became core Treasury staff on that date.

6.58 In addition, the Treasury Group has identified efficiencies through rationalisation of its estate. This has included taking the decision to vacate the OGC's London Headquarters, Trevelyan House, and co-locate all OGC London staff with core Treasury staff in 1 Horse Guards Road.

People

6.59 The Treasury remains a relatively small department, with a broad strategic remit as set out in Chapter 1. Details of the staff profile of the Treasury Group can be found on the Treasury website[7]. Annex A to this chapter shows the staff complement of each of the organisations of the Treasury Group.

Recruitment and Public Appointments

6.60 The Treasury seeks to recruit and retain highly skilled people to provide policy advice for Ministers and to ensure the department is run efficiently and effectively. The Group's recruitment procedures are in accordance with the Civil Service Commissioner's code, which is based on fair and open competition and selection on merit. There are systems in place to ensure compliance and these systems are subject to internal and external audit checks. More detailed information on Treasury recruitment and the annual public appointment plan for 2007 can be found on the Treasury's website.

Increasing Professionalism

6.61 To achieve its objectives successfully, the Treasury must, along with Government as a whole, strive continuously to increase professionalism. This year the Treasury has implemented a new **Workforce and Skills Strategy**, launched in May 2006. This strategy has introduced new HR policies and practices to support stronger people management and greater depth of expertise in staff. This has included the introduction of additional management skills training, and a redesign of staff competencies has taken place to include Professional Skills for Government.

[6] http://www.statisticscommission.co.uk
[7] http://www.hm-treasury.gov.uk/about/about_index.cfm

6.62 The Treasury aims to develop and support a high-performing leadership cadre. Leadership Development for the Treasury Senior Civil Service (SCS) includes quarterly leadership events and seminars, which provide:

- an opportunity for senior staff to take a corporate leadership role on departmental strategic priorities;
- support to the SCS in meeting the challenges of an ambitious corporate change agenda; and
- development opportunities for newly appointed leaders and high-potential talent.

6.63 In addition to this, the Treasury is implementing its **Knowledge Management Strategy**, following a review of knowledge management practice across the Treasury in January 2006.

Reflecting the Society it Serves

6.64 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. The Treasury is on course to meet the Cabinet Office's 2008 diversity targets for the representation of women in the SCS and top management posts and is making progress on representation in the feeder grades to the SCS. However, improving the representation of SCS employees with disabilities and from black and minority ethnic groups remains a key challenge.

6.65 In 2006-07 the Treasury has taken a number of actions to improve diversity performance including: setting out an internal Diversity Delivery Plan, supported by diversity champions in each directorate; establishing a cross-directorate Diversity Group to implement the commitments in the department's Diversity Delivery Plan; and completion of a number of external benchmarking exercises to ensure that progress on diversity continues and that a best practice approach is embedded in the department's management processes and policy formulation.

6.66 In addition to this work the Treasury published its Disability Equality Scheme in December 2006 and its Gender Equality Scheme in April 2007. More information on the Treasury's equality scheme and approach and performance on diversity is available on the website[8].

Developing a Supportive and Sustainable Working Environment

6.67 The Treasury operates an estates strategy that makes effective use of space, and is consistent with the principles of the High Performing Property initiative[9]. The Treasury is also committed to **sustainable development**, contributing to the UK's sustainable development action plan, and striving to reduce the impact of its operations on the environment. The Department works closely with its PFI contractor, Exchequer Partnership (EP), which is responsible for running and maintaining 1 Horse Guards Road. EP operates and maintains certification of an Environmental Management System to identify opportunities for reducing the impact of its operations on the environment.

6.68 The Treasury has made good progress against last year's action plan, including:

- offsetting all official air travel back to April 2006 by participating in the Defra led Government Carbon Offsetting fund scheme;
- increasing staff awareness and engagement in internal initiatives to recycle and reduce utility consumption;
- continuing investment and enhancement to the building management systems to make it more efficient and cost effective;
- 100 per cent of electricity is sourced from renewable sources; and
- 19 per cent cut in carbon emissions against 1999-2000 levels.

6.69 The 2007-08 action plan is due to be published at the end of June.

6.70 The Treasury actively manages **Health, Safety and Wellbeing**, and has a full time welfare officer. Health and Safety resources are shared with Her Majesty's Revenue and Customs. There were 13 accidents reported involving Treasury staff in 2006, a reduction of 7 on 2005.

[8] www.hm-treasury.gov.uk/about/about_index.cfm

[9] The HPP is an initiative sponsored by OGC and launched by the Chief Secretary to the Treasury in November 2006. The aim of the initiative is to maximise use and operation of available estate including disposal of surplus accommodation and use of effective workplace strategies.

Communicating Effectively with the Public and Parliament

6.71 Record numbers of Parliamentary questions were tabled to Treasury Ministers in the 2005-06 Parliamentary session which ended on 8 November 2006: 6,437 in the House of Commons and 483 in the House of Lords. The Treasury set itself internal targets of 70 per cent for Commons Named Day questions and 80 per cent for Commons Ordinary questions and 95 per cent for Lords Writtens. The different targets reflect the varying degrees of difficulty of answering the three types of question within the timescales set by the two Houses of Parliament. As at May 2007, the corresponding performance figures were 67 per cent, 82 per cent and 95 per cent respectively.

6.72 The Treasury aims to respond to at least 80 per cent of all correspondence within 15 working days of receipt. Performance, overall, for the year 2006-07 was 82 per cent against receipts of 10,500 letters from the general public and members of Parliament. In addition the Treasury dealt with approximately 50,000 emails (including campaigns) and 13,000 general telephone enquiries.

6.73 During 2006 the department received 1,228 Freedom of Information (FOI) requests, maintaining 2005's average of just over 100 a month. Of these, 93 per cent were answered within 20 working days or within the permitted time extension where a public interest test needed to be assessed. This is an increase of 16 per cent on 2005. Releases deemed to be of wider public interest are placed on our public website[10].

6.74 OGC has responded to 100 per cent of FOI requests within 20 working days. A new OGC website[11] and updated publications policy also helps the public access a range of information of wider public interest.

[10] http://www.hm-treasury.gov.uk/about/about/information/foi_disclosures/foi_disclosures_index.cfm
[11] www.hm-treasury.gov.uk/freedom_of_information.asp

ANNEX A

HM Treasury Group staff numbers								
Full Time Equivalents (FTEs)	1st April 2001	1st April 2002	1st April 2003	1st April 2004 (A)	1st April 2005	1st April 2006	1st April 2007 Outturn	1st April 2008 (B) Plans
Core Treasury								
CS Permanent	1001	1161	1181	1194	1093	1091	1075	1133
CS Casual	40	70	60	64	62	55	52	55
Machinery of Government Changes								
GSS (OGC) April 2007	68	68	68	68	68	68	68	
OGC Efficiency Team April 2007	12	12	12	12	12	12	12	
Total Gross Control	**1121**	**1311**	**1321**	**1338**	**1235**	**1226**	**1207**	**1188**
DMO								
CS Permanent	66	76	79	84	76	71	75	85
CS Casual	1	1	2	2	1	1	1	0
Total Gross Control	**67**	**77**	**81**	**86**	**77**	**72**	**76**	**85**
OGC								
CS Permanent	450	410	380	370	380	360	339	220
CS Casual	10	10	10	20	70	70	36	30
Machinery of Government Changes								
GSS (OGC) April 2007	-68	-68	-68	-68	-68	-68	-68	
OGC Efficiency Team April 2007	-12	-12	-12	-12	-12	-12	-12	
Total Gross Control	**380**	**340**	**310**	**310**	**370**	**350**	**295**	**250**
Treasury Group								
CS Permanent	1517	1647	1640	1648	1549	1522	1489	1438
CS Casual	51	81	72	86	133	126	89	85
Total Gross Control	**1568**	**1728**	**1712**	**1734**	**1682**	**1648**	**1578**	**1523**

Notes
As part of the Gershon Efficiency Savings, Treasury Group will be reducing its overall headcount by 150 FTE between 1st April 2004 (A) and 1st April 2008 (B). See Chapter 7, para 7.63
The following baseline adjustments have been made due to machinery of government changes:
Past figures have been adjusted to reflect the transfer of 68 Group Shared Services Staff and 12 Efficiency staff from OGC to core Treasury on 1st April 2007.

OGCbuying.solutions staff numbers								
Full Time Equivalents (FTEs)	1st April 2001	1st April 2002	1st April 2003	1st April 2004	1st April 2005	1st April 2006	1st April 2007 Outturn	1st April 2008 Plans
OGCbuying.solutions								
CS Permanent	156	190	230	243	260	282	285	290
CS Casual	0	10	10	0	0	0	4	0
Total Gross Control	**165**	**200**	**240**	**243**	**260**	**282**	**289**	**290**

7 Managing the Money

Includes:

Commentary on comparative financial data and projections 2001-11

Report on efficiency plans and progress 2006-07

HM TREASURY GROUP FINANCIAL DATA AND PROJECTIONS

Introduction

7.1 This section describes through comparative tables and additional information the finances of the Treasury Group. For more information refer to the Resource Accounts in Section 2 which show detailed audited figures for 2005-06 and 2006-07, in the context of the Treasury's Estimates.

7.2 The data presented here have been restated from similar tables published in last year's report to reflect:

- the creation during 2006-07 of shared corporate services for the Treasury group ("Group Shared Services"), as part of the Treasury's response to its settlement in the 2007 Comprehensive Spending Review (2007CSR). Budgets for OGC's Information Services, Estates, Human Resources, Finance & Procurement and Internal Audit functions have been transferred to core Treasury, and equivalent transfers have been made for the prior years to aid comparability;

- the transfer during 2006-07 of the budget for the salaries and pensions of UK Members of the European Parliament from the Treasury to the Cabinet Office. The costs of this function for years prior to the transfer have now been removed from the tables, and will appear in the Cabinet Office's figures instead;

- the reclassification from Departmental Expenditure Limit (DEL) to Annually Managed Expenditure (AME) of the metal element of the UK coinage contract (see paragraph 7.20); and

- in common with all departments, the reclassification of impairment charges from DEL to AME in line with changes to Budgeting Guidance.

7.3 In this section:

- Table 7.2 summarises the group's public spending, including both resource and capital;

- Table 7.3 provides detail on resource DEL by spending body and function;

- Table 7.4 analyses net DEL Administration costs;

- Table 7.5 provides detail of resource AME;

- Table 7.6 analyses the capital budget; and

- Table 7.7 summarises the Group balance sheet.

7.4 Commentary on the year on year changes in resource budgets is set out beneath Tables 7.3 to 7.5, while commentary on capital movements is set out beneath Tables 7.6 and 7.7. Variances between the outturn for 2006-07 and the limits voted by Parliament in the 2006-07 Spring Supplementary Estimate are analysed in note 3 to the resource accounts on page 126. The Statement of Operating Cost by Departmental Aim and Objectives on page 120 analyses the current and prior year's income and expenditure according to the contributions to the eight objectives set for Spending Review 2004.

7.5 Due to rounding, some of the totals in the tables may differ from the sum of the line items.

Treasury Group Finances

7.6 The Treasury Group's funding for the Spending Review 2004 period, running from 2005-06 to 2007-08 inclusive, was a "flat cash" £248 million Departmental Expenditure Limit (DEL) for each year. After the transfer of the budget for MEPs' salaries and pensions to the Cabinet Office and the reclassification of coinage metal costs to Annually Managed Expenditure (AME), and including an extra allocation of £2 million from the Financial Inclusion Fund for 2007-08, the DEL limits were £227 million in 2005-06, £226 million in 2006-07 and £228 million in 2007-08.

7.7 Outturn against the DEL limit was £214 million in 2005-06 and £202 million in 2006-07. In 2007-08 we plan to spend the full £228 million, but the increase over 2006-07 will be on transformation costs, implementing Group Shared Services and other activities designed to generate savings in the following years. The level of recurrent costs in 2007-08 should be broadly flat. The Group's underspending to date against its SR2004 limits has been in part enabled by the efficiency measures introduced in response to the Gershon Review. Progress against those targets is set out in the efficiency section of this chapter, starting on page 97.

7.8 The total Resource Budget outturn, including AME expenditure, was £263 million in 2005-06 and £232 million in 2006-07, and in 2007-08 it is expected to be £310 million. The key year on year changes between 2005-06 and 2006-07 were as follows:

- Coinage metal costs increased by £8 million, or 56 per cent due to sharp increases in the market prices of copper and nickel – see paragraph 7.20 for more detail;

- the Treasury's dividend from the Bank of England was £83 million in 2006-07, compared to £47 million in 2005-06, and this reduced the net cost of investment in the Bank from £36 million in 2005-06 to £1 million in 2006-07. The exceptional extra dividend arises from the settlement of £74 million received by the Bank from the liquidators and receivers of BCCI. Projections for 2007-08 onwards make cautious assumptions about dividends receivable from the Bank, so the budgeted net cost of investment in the tables rises to £47 million in 2007-08. This is the main factor in the increase in the total resource budget from £232 million in 2006-07 to £310 million in 2007-08; and

- the Office of Government Commerce's total spend fell this year due to the cessation of the Efficiency Challenge Fund, which contributed £8 million to last year's total.

7.9 The tables in this section show the Group's Total Resource Budget, analysed between DEL and AME, whereas the resource accounts in Section 2 mainly show income and expenditure in the context of Supply voted by Parliament[1]. The Treasury's budget regime and the Parliamentary Supply regime differ in terms of the boundary of the items included and as a result some items appear in one set of statements but not the other. The reconciliation between the Total Resource Budget from Table 7.2 and the Net Operating Costs on page 117 of the Resource Accounts is as follows.

Table 7.1: Reconciliation of comparative tables to Resource Accounts

	2005-06 £000	2006-07 £000
Total Resource Budget outturn per Table 7.2	**262,874**	**231,714**
Expenditure included in Comparative Tables but not in the Resource Accounts:		
Standing Services of the Consolidated Fund, not voted by Parliament		
Civil List, net (DEL)	(8,259)	(8,259)
Royal Household Pension Fund, net (AME)	(1,973)	(2,006)
Non-budget income included in Resource Accounts but not in Comparative Tables		
Pool Re reinsurance premium income	(29,263)	(36,292)
Other non-budget income	(343)	(323)
Net operating cost, per Resource Accounts, page 117	**223,036**	**184,834**

[1] The Treasury's Estimates are available from http://www.hm-treasury.gov.uk/documents/public_spending_and_services/parliamentary_supply_estimates/pss_pse_index.cfm

Table 7.2: Total departmental spending (resource and capital) for the HM Treasury Group

£ million	Para ref	Outturn 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Plans 2007-08	Projections 2008-09	2009-10	2010-11
Resource DEL											
Core Treasury & GSS[2]	*7.14*	105	125	131	122	136	131	143	142	137	130
DMO	*7.19*	8	7	8	7	8	7	11	9	9	9
Coinage	7.20	22	21	21	18	17	19	19	19	20	20
OGC	*7.23*	-12	27	20	19	41	33	27	27	25	24
Other functions	*7.26*	11	11	14	12	13	13	13	12	12	11
DUP[3]	*7.12*							15	10	11	14
Total Resource DEL		**134**	**191**	**194**	**178**	**214**	**202**	**228**	**220**	**214**	**208**
Of which: Near-cash		*149*	*182*	*190*	*189*	*208*	*194*	*229*	*221*	*215*	*209*
Resource AME											
Impairment charges	*7.31*	1	73	0	-11	-5	1				
Coinage	*7.20*	15	14	13	16	16	25	33	35	38	38
Bank of England	*7.33*	63	72	77	57	36	1	47	47	50	52
Other functions	*7.26*	1	2	2	2	2	2	2	2	2	2
Total Resource AME		**81**	**160**	**92**	**64**	**49**	**29**	**82**	**85**	**90**	**92**
Of which: Near-cash		*-30*	*-24*	*-17*	*-23*	*-30*	*-54*	*-7*	*-3*	*-3*	*-2*
Total Resource Budget		**216**	**351**	**286**	**242**	**263**	**232**	**310**	**305**	**304**	**301**
Of which: depreciation		*9*	*80*	*8*	*-3*	*7*	*7*	*10*	*7*	*7*	*7*
Capital DEL	*7.35*										
Core Treasury & GSS[2]	*7.35*	8	132	3	-18	6	2	5	3	3	3
DMO		2	1	1	1	1	1	2	2	1	1
OGC	*7.37*	-42	-74	0	-3	-15	-3	0	0	0	0
DUP[3]								0	2	3	3
Total Capital Budget[4]		**-32**	**59**	**4**	**-20**	**-9**	**-1**	**7**	**7**	**7**	**7**
Total departmental spending											
Core Treasury & GSS[2]		98	251	128	97	133	137	137	140	135	128
DMO		9	7	8	7	7	8	12	10	9	9
Coinage		37	34	34	34	33	44	52	55	58	58
OGC		-54	-47	20	16	27	32	27	26	24	23
Bank of England		63	72	77	57	36	3	47	47	50	52
Other functions		23	13	16	14	15	15	15	15	15	13
DUP[3]								16	12	14	17
Total departmental spending[5]		**175**	**330**	**282**	**225**	**246**	**224**	**307**	**305**	**304**	**301**
Total DEL		**96**	**243**	**191**	**161**	**197**	**195**	**225**	**220**	**214**	**208**
Total AME		**79**	**87**	**91**	**64**	**49**	**29**	**82**	**85**	**90**	**92**

[2] GSS = Group Shared Services
[3] DUP = Departmental Unallocated Provision
[4] The Treasury Group has no capital AME
[5] Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME

Overview of the Comprehensive Spending Review Settlement and the Group's Spending Plans for 2007-08 to 2010-11

7.10 The Comprehensive Spending Review (CSR) settlement for the Treasury Group was announced in Budget 2006. Building on the efficiency programme put in place in the 2004 Spending Review (SR2004), the Treasury Group's DEL will fall by 5 per cent in real terms per year in 2008-09, 2009-10 and 2010-11. The projected spending figures for 2008-09 through to 2010-11 reflect the DEL allocation.

7.11 Planning for the implementation of this settlement is now underway. Staff from across the Treasury Group have completed a programme of zero-based reviews, looking carefully at how the Group resources its work in key areas. As a result of the corporate services reviews, work is well underway to generate savings by maximising the value of the Group estate through the co-location of the London operations of OGC in the Treasury's building at 1 Horse Guards Road from the autumn of 2007, as well as bringing together shared corporate services across the Treasury Group for HR, Finance and Procurement, Internal Audit, and Information Services (IS) and Estates functions. Group Heads of the five services have now been appointed, and centralised management of Group Shared Services was implemented during the second half of 2006-07. The Group is also considering its staffing structures at all levels and across all functions. The core Treasury is rationalising its Directorate structure[6] and its senior civil service posts, as well as reviewing overall staff costs. Further information on these changes, along with the Group's progress against the efficiency targets and plans set for the SR2004 period, is set out in the efficiency section starting on page 97.

7.12 Within resource DEL, between 5 and 7 per cent of the budget for 2007-08 to 2010-11 is currently held in the Departmental Unallocated Provision (DUP). In 2007-08 and 2008-09 some of this funding will be applied on non-recurrent transformation costs, including restructuring the OGC, the core department and Group Shared Services. At this stage of our planning for 2009-10 and 2010-11, we need to retain flexibility to respond to changes in circumstances and priorities that may emerge in the next two to three years. As the Treasury moves through the 2007CSR period, it expects progressively to allocate more of the DEL envelope across specific headings and start each financial year with a DUP of around 2 per cent.

7.13 To the extent that transformation costs cannot be met from within the DEL, they will be funded by draw down from the Modernisation Fund. The Treasury Group was allocated up to £18 million modernisation funding as part of its CSR settlement. Bids for Modernisation Fund money will be supported by a business case and included as appropriate in the Supplementary Estimates for 2007-08 and 2008-09, subject to the approval of the Chief Secretary.

[6] Our new Directorate structure can be found on page 16 of this report

Table 7.3: Resource DEL budget for HM Treasury Group, by spending body

	Para	Outturn						Plans	Projections		
£ million	ref	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Core Treasury & GSS	7.14	**105**	**125**	**131**	**122**	**136**	**131**	**142**	**142**	**137**	**130**
Net administration costs, including GSS	7.14	85	113	119	104	117	113	123	120	117	112
Financial Inclusion Fund (admin)	7.16					1	1	3			
Banking and gilts registration	7.17	12	11	12	15	10	12	13	13	13	14
Other core Treasury programme costs	7.18	8	1	1	3	8	4	4	9	8	4
DMO	7.19	**8**	**7**	**8**	**7**	**8**	**7**	**11**	**9**	**9**	**9**
Net administration costs	7.19	8	6	7	6	7	7	10	9	9	8
Net programme costs		0	1	1	1	0	1	1	1	1	1
Coinage	7.20	**22**	**21**	**21**	**18**	**17**	**19**	**19**	**19**	**20**	**20**
OGC	7.23	**-12**	**27**	**20**	**19**	**41**	**33**	**27**	**27**	**25**	**24**
Net administration costs	7.23	19	22	20	23	32	33	26	27	24	24
Residual estate	7.24	-31	5	0	-5	1	0	1	1	1	1
Efficiency Challenge Fund	7.25				1	8					
Other functions	7.26	**11**	**11**	**14**	**12**	**13**	**13**	**13**	**12**	**12**	**11**
Grants to Statistics Commission and Parliamentary bodies	7.28	1	2	5	4	4	4	5	4	4	3
Civil List (net)	7.26	9	9	8	8	8	8	8	8	8	8
Departmental Unallocated Provision								**15**	**10**	**11**	**14**
Total Resource DEL		**134**	**191**	**194**	**178**	**214**	**202**	**228**	**220**	**214**	**208**
of which:											
Near-cash, of which		*149*	*182*	*190*	*189*	*208*	*194*	*229*	*221*	*215*	*209*
Pay		*69*	*75*	*79*	*82*	*93*	*95*	*90*			
Goods and services		*80*	*98*	*93*	*98*	*96*	*93*	*108*			
Grants and subsidies		*1*	*2*	*5*	*4*	*4*	*4*	*5*	*4*	*4*	*3*
Depreciation		*7*	*7*	*8*	*-3*	*7*	*7*	*10*	*7*	*7*	*7*

Table 7.4: Administration costs for HM Treasury Group

£ million	Para ref	Outturn 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Plans 2007-08	Projections 2008-09	2009-10	2010-11
Gross administration costs											
Paybill		69	75	79	82	93	95	90			
Other		61	85	82	71	89	85	91			
DUP								7			
Total gross administration costs		**130**	**160**	**162**	**153**	**181**	**180**	**188**			
Related administration cost receipts		-18	-19	-17	-20	-25	-25	-18			
Total net administration costs		**112**	**142**	**145**	**133**	**157**	**155**	**170**	**165**	**161**	**158**
Analysis by activity											
Core Treasury & GSS	*7.14*	85	113	119	104	118	115	126	120	117	112
DMO	*7.19*	8	6	7	6	7	7	10	9	9	8
OGC	*7.23*	19	22	20	23	32	33	26	27	24	24
DUP	*7.12*							7	10	11	14
Total net administration costs		**112**	**142**	**145**	**133**	**157**	**155**	**170**	**165**	**161**	**158**
Core Treasury and GSS includes:											
Consultancy[7]		*1.16*	*3.03*	*6.16*	*4.91*	*6.10*	*3.44*				
Travel and subsistence		*1.34*	*1.84*	*1.94*	*2.11*	*2.32*	*2.48*				
DMO includes:											
Consultancy[7]		*0.32*	*0.56*	*0.52*	*0.77*	*0.58*	*0.34*				
Travel and subsistence		*0.02*	*0.03*	*0.04*	*0.03*	*0.04*	*0.03*				
OGC includes:											
Consultancy[8]		*N/A*	*N/A*	*4.22*	*5.71*	*7.66*	*5.59*				
Travel and subsistence		*1.47*	*1.44*	*1.55*	*1.72*	*2.04*	*2.40*				

Resource Departmental Expenditure Limit (DEL) Including Administration Costs

Core Treasury and Group Shared Services (GSS)

7.14 The costs in Table 7.3 relate to work across all the Group's objectives, described in Chapters 2 to 5 of this report. Within the totals, pension costs have been £2 million a year higher since 2003-04 because of increases in the contributions payable by all departments to the Principal Civil Service Pension Scheme; 2005-06 included work for the UK's joint presidencies of the G7 and G8; and the Treasury's work on the 2004 Spending Review and the 2007CSR account for around £2 million of costs in each of 2003-04 and 2006-07. The 2004-05 administration cost total of £104 million is net of an £8 million gain recorded on the disposal of the 100 Parliament Street offices to HM Revenue and Customs.

7.15 The projections for 2008-09 through to 2010-11 relate to the 2007CSR period and show the costs of the core Treasury plus Group Shared Services falling in nominal terms (and faster in real terms). The main contributors to the planned savings are a rationalisation of the Group's accommodation and other efficiencies in corporate functions, together with changes in the directorate and senior management structure.

[7]Until 2006-07, recorded Consultancy spend has included a number of steady state/operational contracted out professional services including, since 2002-03, fees to Partnerships UK for their work providing project and policy support to the Treasury and other public bodies on the development, procurement and implementation of Public Private Partnerships. From 2006-07, the Treasury, DMO and OGC have applied OGC's definition of Consultancy which relates to time limited advisory, design & development and implementation assignments.

[8]Information on OGC's own consultancy spending for years prior to 2003-04 could be disaggregated from costs of services engaged on behalf of other bodies only at disproportionate cost

7.16 The Financial Inclusion Fund was established as part of Spending Review 2004. The Treasury's allocation from it has covered the work of the Financial Inclusion Taskforce and the Treasury's Financial Inclusion team, which provides policy support and administers the distribution of the fund to other departments, and in 2007-08 will pay for an independent feasibility study, led by Otto Thoresen, to research and design a national approach to generic financial advice. This was announced by the Economic Secretary on 15 January 2007. Financial Inclusion contributes mainly to Objective III.

7.17 Banking and gilts registration costs (which contribute to Objective I) comprise the fees paid to the Bank of England for management of the UK's foreign currency reserves, and fees for gilts registration services which since 2004-05 have been contracted out to Computershare. The peak in reported costs in 2004-05 included Computershare's start up costs. In addition, £1.4 million costs relating to 2005-06 were erroneously accounted for in 2004-05.

7.18 The increase in Other Core Treasury costs in 2005-06 includes spending on the UK's joint presidencies of the G7 and G8, and the promotion of retail savings products introduced following the Sandler Review's recommendations.

Debt Management Office (DMO)

7.19 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. The DMO contributes primarily to Objective I, and its work is mainly described in Chapter 2.

Coinage (DEL and AME)

7.20 The Treasury pays for the production by the Royal Mint of new UK circulating coinage. Details of the service level agreement are given in note 25 to the resource accounts, on page 150. Table 7.3 includes the manufacturing cost of coinage, and Table 7.5 includes the metal cost. Overall coinage costs increased in 2005-06 and 2006-07, primarily because of sharp rises in metal prices. The sterling spot price of copper rose by about 75 per cent during 2005-06, and then by a further 25 per cent in the first quarter of 2006-07. Although the price has fallen back in the last two quarters of 2006-07, copper is still around 140 per cent more expensive than the average price in 2004-05. The sterling price of nickel has risen even more, by about 145 per cent during 2006-07.

7.21 Because of the disproportionate impact of the recent volatility in metal prices on the Group's budget, the metal element of the cost of coinage has been reclassified as AME with effect from 1 April 2007, while the manufacturing cost remains in DEL. The tables in this chapter reflect the reclassification, restating prior years for comparability. The resource accounts for 2006-07 show both metal and manufacturing costs within DEL reflecting the classification in the Estimate.

7.22 Demand for coinage in the years 2001-02 to 2006-07 has been in the range 1,709 million to 2,344 million factored units[9], and increased from 1,736 million factored units in 2005-06 to 1,972 million factored units in 2006-07. The budgets for the cost of coinage in the years 2007-08 to 2010-11 assume metal prices remain at current levels and that demand remains at 2005-06 levels. The manufacturing price is subject to negotiation with the Royal Mint as part of the new service level agreement (see also paragraph 7.53 on page 98). The supply of coinage contributes to Objective I, alongside the work described in Chapter 2.

Office of Government Commerce (OGC)

7.23 The work of the Office of Government Commerce is described in Chapter 5, and is a key contributor to Objective VI. The OGC's expenditure increased between 2004-05 and 2005-06 due to an expansion of its remit in that period, particularly on improving efficiency across the public sector. The planned reduction in Administration spend from 2007-08 onwards 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.

7.24 OGC is responsible for the management and disposal of the residual surplus Civil Estate properties inherited in 1996 by its predecessor, the Property Advisers to the Civil Estate. Between 1996 and 2007, the Estate reduced from 384 to 16 properties, and this had a considerable impact on OGC's resource budget, particularly in the earlier years. The negative outturns on the Residual Estate line in Table 7.3 occur because the OGC's balance sheet contains provisions for the onerous costs of residual leasehold properties. As the estate is disposed of, surplus provisions are released from the balance sheet, counting as credits to the resource budget. The value of the releases becomes smaller as the rate of disposal of properties reduces.

[9] Coinage manufacturing costs are expressed in price per "factored unit", which gives a weighting to each denomination of coin to enable overall demand to be meaningfully compared from one period to another.

7.25 The Efficiency Challenge Fund (ECF) supported departments' and other public sector bodies' work towards their efficiency targets, and was managed through OGC as part of the SR2004 settlement. The conclusion of OGC's ECF programme in 2005-06 is the cause of the overall fall in OGC's spending from 2005-06 to 2006-07.

Other Functions

7.26 The "Other Functions" section of Table 7.3 includes costs borne by HM Treasury for historical reasons. The Civil List (together with the the Royal Household Pension Scheme, which is within AME and is shown in Table 7.5) is a Standing Service of the Consolidated Fund ie without further year-by-year parliamentary authority, which is included in HM Treasury's resource budget but not included in the resource accounts. The fixed annual amount for Her Majesty The Queen's Civil List is £7.9 million for the ten year period to 31 December 2010. Additionally, Parliamentary Annuities are paid to other members of the Royal Family amounting to £1,613,000, of which £1,254,000 is reimbursed to the Exchequer by The Queen. The overall Civil List net figure is therefore £8,259,000 as shown in Table 7.3. Pending negotiation of the new settlement, the projection for 2010-11 shows a continuation of the current £8,259,000 net figure.

7.27 During 2006-07, it was agreed that budgetary responsibility for the salaries and pensions of UK Members of the European Parliament, which was previously a charge on the Treasury's DEL, should pass to the Cabinet Office, which has policy responsibility. The cost (around £7 million a year) has therefore been removed from Tables 7.2 and 7.3 and will now appear in the Cabinet Office's spending tables.

7.28 The Treasury pays grants to the four Parliamentary bodies (the Commonwealth Parliamentary Association, the British-American Parliamentary Group, the Inter-Parliamentary Union and the British-Irish Parliamentary Union) totalling around £3 million a year. The Parliamentary bodies have agreed that from 2008-09 they will be funded by the House of Commons Commission. At that point the Treasury's DEL will be reduced by the value of the grants that would otherwise have been paid, in line with the process for machinery of government changes.

7.29 The Treasury also pays a grant of up to £1.35 million a year to the Statistics Commission. The Statistics & Registration Bill is progressing through Parliament, and if passed into law would establish a new Statistics Board, encompassing the Office for National Statistics, from 1 April 2008. The new Statistics Board would take on the functions of the Statistics Commission, and the Treasury's funding for the Statistics Commission would transfer to the Board accordingly.

7.30 The work of the Statistics Commission contributes to Objective I; the Civil List and the Parliamentary bodies do not relate to Treasury objectives.

Table 7.5: Resource AME budget for HM Treasury Group, by spending body

£ million	Para ref	Outturn 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Plans 2007-08	Projections 2008-09	2009-10	2010-11
Core Treasury: impairment charges/ credits	*7.31*	**1**	**73**	**0**	**-11**	**-5**	**1**	**0**	**0**	**0**	**0**
Coinage	*7.32*	**15**	**14**	**13**	**16**	**16**	**25**	**33**	**35**	**38**	**38**
Metal costs		11	9	11	13	15	23	31	31	32	32
Cost of capital		4	5	2	4	1	2	2	4	6	6
Net cost of investment in the Bank of England	*7.33*	**63**	**72**	**77**	**57**	**36**	**1**	**47**	**47**	**50**	**52**
Cost of capital		105	106	107	95	83	84	87			
Dividend receivable		-42	-34	-30	-38	-47	-83	-40			
Other functions: Royal Household Pension Fund	*7.26*	**1**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Total Resource AME		81	160	92	64	49	29	82	85	90	92
Of which:											
Near-cash, of which		*-30*	*-24*	*-17*	*-24*	*-30*	*-58*	*-7*	*-3*	*-3*	*-2*
Pay		*1*	*2*	*2*	*2*	*2*	*2*	*2*	*2*	*2*	*2*
Goods and services		*11*	*9*	*11*	*13*	*15*	*23*	*31*	*31*	*32*	*32*
Depreciation and impairments		*1*	*73*	*0*	*-11*	*-5*	*1*	*0*	*0*	*0*	*0*

Impairment Charges and Credits

7.31 Asset revaluations and impairments were previously within the Departmental Expenditure Limit but have now been reclassified to Annually Managed Expenditure (AME). This change applies to all departments. The amounts in Table 7.5 include:

- £69 million within the total for 2002-03, representing the difference between the costs of refurbishing 1 Horse Guards Road incurred by the Treasury's private sector partner and the value, independently assessed, of the refurbished building based on rental potential (a full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999); and

- £11 million revaluation gain on 1 Horse Guards Road in 2004-05 and a further £5 million gain in 2005-06. (Projections for the future assume no change in the March 2006 value of the building.)

Coinage

7.32 The cost of metal used to produce UK circulating coinage is discussed in paragraph 7.20. Within AME, there is also a cost of capital charge on the Treasury's investment in the Royal Mint. The rate for the cost of capital charge was reduced in 2005-06 to 3.5 per cent, while the Mint underwent restructuring, but the Treasury anticipates that the target rate of return will be raised again from 2007-08 onwards as the benefits of the restructuring are realised and the Mint is enabled to be consistently profitable.

Net Cost of Investment in the Bank of England

7.33 The Treasury is the sole shareholder in the Bank of England. The Bank pays the Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. This is credited as income to the Treasury budget but is then surrendered to the Consolidated Fund. The Treasury's investment in the Bank is valued in the Treasury's accounts and for the purpose of the cost of capital charge at the Bank's net asset value per its own accounts. For 2005-06 onwards, the cost of capital charge is based on a rate of 4.94 per cent, which is the post tax equivalent of the Bank's 6 per cent target rate of return. Prior to 2005-06 the gross target rate of return was used (7 per cent until 2003-04; 6 per cent in 2004-05). The changes in the rate are the main cause of the reductions in the charge from £107 million in 2003-04 to £84 million in 2006-07.

7.34 The 2006-07 dividend includes an exceptional amount relating to the settlement of £74 million received by the Bank from the liquidators and receivers of BCCI. Projections for 2007-08 onwards prudently assume an upward trend in the net cost of investment. The investment in the Bank contributes to Objectives I and III, described in Chapters 2 and 3.

Table 7.6: Capital budget for HM Treasury Group (all DEL)

£ million	Para ref	Outturn 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Plans 2007-08	Projections 2008-09	2009-10	2010-11
Core Treasury including GSS		**8**	**131**	**3**	**-18**	**6**	**2**	**5**	**3**	**3**	**3**
Administration	7.35	8	145	3	-18	6	2	5	3	3	3
Investments	7.38		-14								
Debt Management Office		**2**	**1**	**1**	**1**	**1**	**1**	**2**	**2**	**1**	**1**
Office of Government Commerce[10]: Residual Estate and Whitehall Systems	7.37	**-42**	**-74**	**0**	**-3**	**-15**	**-3**	**-1**	**0**	**0**	**0**
Departmental Unallocated Provision									**2**	**3**	**3**
Total Capital DEL		-32	59	4	-20	-9	-1	6	7	7	7

Core Treasury and GSS

7.35 Since 2002-03, when the Treasury occupied its new headquarters building at 1 Horse Guards Road procured under the Private Finance Initiative, the Group's capital expenditure has been mainly on operational IT assets. Planned expenditure for 2007-08 includes cyclical renewal/refreshment of those assets.

7.36 In line with standard accounting practice, the £141 million capital costs of the 1 Horse Guards Road project, incurred by and paid by the private sector partner, were presented as part of the Treasury's own capital expenditure for 2002-03. A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999. The credit of £14 million in 2002-03 arose from the disposal of residual shares from past privatisations in power companies, Powergen and Innogy. The 2004-05 capital outturn included a receipt from the disposal of the land at 100 Parliament Street for £22 million.

Office of Government Commerce Residual Estate and Whitehall Systems

7.37 Capital receipts from the sale of residual freehold properties of £42 million in 2001-02 and £74 million in 2002-03 were mostly accounted for by the sale of, respectively, 2 Marsham Street SW1 and Burtonwood, near Warrington. The amount for 2004-05 is the capital receipt of £11 million for the transfer of the Whitehall heating and standby power Systems to OGCbuying.solutions, offset by the issue of the loan for £8 million to OGCbuying.solutions to facilitate the transfer. The amount for 2005-06 includes receipts of £13 million for the disposal of the residual estate freehold property at Honeypot Lane, Stanmore and £1 million for part repayment of the loan to OGCbuying.solutions. The £3 million credit for 2006-07 is further repayment of the same loan.

7.38 The proceeds from disposals of shares in privatised utilities, 100 Parliament Street and the OGC residual estate were surrendered to the Consolidated Fund and not spent by the Treasury Group.

7.39 The Debt Management Office's capital spending contributes to Objective I. The Office of Government Commerce's capital spend contributes to Objective VI. Core Treasury and GSS capital spend contributes to all objectives.

[10] After restatement of capital spending to GSS, OGC's residual Admin capital spending is less than £0.5 million each year, rounding to zero in the tables.

Table 7.7: Capital employed by HM Treasury Group

£ million	Para ref	Outturn 2002	2003	2004	2005	2006	2007	Forecast 2008
Fixed assets		**1611**	**1663**	**1710**	**1743**	**1880**	**2000**	**2085**
Of which								
Land & Buildings	*7.40*	33	110	106	100	105	102	97
IT assets		8	6	4	8	7	5	6
Other tangible assets	*7.41*	18	16	15	3	4	4	3
Investments	*7.40*	1552	1531	1585	1632	1764	1889	1979
Other assets		**260**	**187**	**78**	**104**	**74**	**111**	**71**
Creditors (<1 year)		**-168**	**-204**	**-83**	**-106**	**-98**	**-125**	**-85**
Creditors (>1 year)	*7.40*	**0**	**-142**	**-145**	**-147**	**-150**	**-153**	**-158**
Provisions		**-48**	**-31**	**-28**	**-16**	**-14**	**-16**	**-19**
Capital employed		1654	1473	1533	1577	1692	1818	1894

7.40 The highest value item in the Group's balance sheet is the shareholding in the Bank of England, which is valued in line with the Bank's net assets at £1.86 billion at 31 March 2007. Other significant assets and liabilities include:

- the operational offices used by core Treasury, OGC and DMO (note 11 on page 135). The increase in value in 2002-03 arises from the addition of 1 Horse Guards Road to the balance sheet (a full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999);
- investments in Partnerships UK, OGCbuying.solutions and the Royal Mint (note 13 on page137); and
- the long term creditor, since 2002-03, for the 1 Horse Guards Road PFI contract (note 24.2 on page 149).

7.41 The fall in the value of other tangible fixed assets from 2004 is due to the transfer of the Whitehall Systems from OGC to OGCbuying.solutions. Other assets include debtors, cash and (in earlier years) the vacant civil estate managed by the OGC. The principal short-term creditor is the Consolidated Fund. Further details of the Group's balance sheet are given in the notes to the Resource Accounts in Section 2.

7.42 The increase in the value of other assets and current liabilities in 2006-07 is due to the larger than usual dividend receivable from the Bank of England, and the associated liability to surrender it to the Consolidated Fund.

Payment of Suppliers

7.43 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 2006-07 the group achieved a performance of 97 per cent against this target, up from 96 per cent for the previous year.

HM TREASURY GROUP EFFICIENCY PLANS AND PROGRESS

Introduction

7.44 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[11]. 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[12]. This section describes the progress to date and key future developments.

Performance Against Targets

7.45 Treasury Group is on course to meet, and in some cases exceed, its efficiency targets. OGC, OGCbuying.solutions, DMO and Group Shared Services have already delivered their planned savings and are continuing to look at ways to further increase their efficiency savings. Core Treasury is on course to at least meet its efficiency target over the period.

Table 7.8: Treasury Group - Efficiency targets: summary progress to date[13]

£ million	Target 2007-08	Progress 31 December 2006	Progress 31 March 2007	Of which Cashable[14]
Core Treasury	10.9	8.0	8.5	8.5
OGC	3.5	3.5	3.5	2.0
OGCbuying.solutions[15]	1.8	1.6	1.8	0.9
DMO	1.0	1.0	1.0	1.0
Group Shared Services	1.5	1.8	1.8	1.7
Total	18.7	15.9	16.6	14.1

Core Treasury

7.46 The core Treasury efficiency plans focus on three workstreams against which performance is measured, as detailed below. The core Treasury had achieved £8.0 million of efficiencies by 31 December 2006, and £8.5 million by 31 March 2007.

7.47 Workstream: Policy, Funding and Regulation (PFR) – Directorate Budgets & Procurement

Plans: £5.3 million efficiencies by 2007-08
Progress to 31 December 2006: £4.7 million
Progress to 31 March 2007: £4.8 million

7.48 Through the SR2004 period, the Treasury organisational structure has been realigned to fit better with policy objectives, reduce areas of overlap and increase synergies between teams, securing substantial efficiencies in staffing. The most significant of these changes was the transfer of tax policy responsibility from the revenue departments to the Treasury in 2004-05, following the O'Donnell Review. Work on strategic tax policy and policy development previously spread across the Inland Revenue, HM Customs & Excise and the Treasury has been brought together within the Budget Tax & Welfare directorate of the Treasury.

7.49 Over the last year, the structure of the core Treasury has been further adapted and simplified to increasingly focus on delivering core objectives, in particular, to reinforce the efforts to raise productivity across the private and public sectors, to improve the management of the public finances and to ensure financial stability.

7.50 To reduce non-pay costs, the Treasury has also put in place a programme of reforms to its procurement strategy, with the overall objective of providing better value for money through improved efficiency in procurement delivery (covering procurement services, purchases, processes and systems).

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

Plans: £4.0 million efficiencies by 2007-08
Progress to 31 December 2006: £2.3 million
Progress to 31 March 2007: £2.3 million

[11] Originally £17.7m, raised to £18.7 million following OGCbuying.solutions increasing their contribution from £0.8 million to £1.8 million by 2007-08
[12] A revised Efficiency Technical Note was published in December 2006, and is available from http://www.hm-treasury.gov.uk/media/80B/C5/hmt_efficiencytechnicalnote_141206.pdf
[13] This table shows December 2006 figures for consistency with the Budget report, as well as the figures for progress at 31 March 2007
[14] Cashable savings are those that reduce the costs associated with a defined activity or output, thereby releasing money to be utilised by other priorities in the department
[15] OGCbuying.solutions is an Executive Agency of the OGC, with Trading Fund status. As part of the Treasury Group it has its own efficiency target and is included in the table above. The budget and accounting regime exclude trading funds from department results; hence the results of OGCbs are not consolidated in the figures given earlier in this chapter

7.51 In 2006-07 the Strategic Reserve was used to fund, for example, the continuation of the cross Whitehall financial management improvement programme, and the 2005 manifesto commitment to work with banks and building societies to enable the introduction of a UK unclaimed assets scheme (both of which continue into 2007-08). The allocation for 2007-08 also includes the cost of the UK's presidency of the Financial Action Task Force on Money Laundering and Terrorist Financing. These are new policy priorities that have been funded from within the Treasury Group's SR2004 funding allocation, enabled by efficiency savings.

Workstream: Programme
Plans: £1.6 million efficiencies by 2007-08
Progress to 31 December 2006: £1.0 million
Progress to 31 March 2007: £1.4 million

7.52 The main element within the Treasury's programme workstream is the purchase of UK coinage from the Royal Mint. The Treasury has supported the Mint's Business Improvement Programme, which was implemented this year and is already producing savings in the Mint's production and overhead costs. The Treasury is also working with the Mint to identify improvements in the arrangements for the production and distribution of UK circulating coinage.

7.53 It is expected that these improvements will be incorporated in a new service level agreement between the Treasury and the Mint, the negotiation of which is due to start in the near future. The manufacturing price set under the service level agreement will affect the value of efficiencies counted under the core Treasury's programme workstream, which may therefore not reach its originally planned level, but the Directorate Budgets and Procurement workstream is making a larger contribution than originally planned, so the core Treasury's overall contribution will be met.

Office of Government Commerce

7.54 OGC has already met its £3.5 million savings contribution. Total savings to 31 March 2007 were £3.5 million. The three main supporting workstreams of the OGC's Efficiency Programme are Corporate Services, Procurement and Productive Time. To date, OGC has achieved procurement savings of £1.5 million through the use of smarter procurement methods, including the use of shared contracts. In corporate services, OGC has achieved savings of £1 million through streamlining central functions. OGC has also achieved savings of £1 million on productive time through better use of consultants, and other initiatives. OGC has achieved its efficiency targets during the first two years of the programme with minimal impact on the quality of services provided.

7.55 From 2007-08, OGC will become a smaller, higher calibre organisation, and will deliver the actions under its efficiency programme while implementing the changes set out in the Government's report *Transforming Government Procurement*.

OGCbuying.solutions

7.56 All actions have now been completed, and as at end March 2007, OGCbuying.solutions had secured its full £1.8 million of efficiency savings through:

- £0.9 million of productive time savings through an improvement in the ratio of internal costs to public sector value for money improvements;
- £0.6 million of procurement savings through the reduction in the cost of delivery of some of its support services; and
- £0.3 million of relocation savings.

7.57 The Efficiency Steering Group has ensured that the Efficiency Programme was managed so as to minimise the impact on customer service. Regular independent customer value indicator research is carried out, which shows that customer satisfaction continues to exceed its Ministerial target of 90 per cent.

Debt Management Office

7.58 DMO has delivered its £1.0 million contribution to the overall saving target. The efficiencies were achieved as follows.

- **Corporate Services:** The DMO has centralised some business activities – such as settlement, accounting and preparation of management information – to those teams within the agency with a comparative advantage in such work. This workstream also included migration of processes to the DMO's core systems that had hitherto been undertaken on legacy systems. This has generated annual savings of £0.3 million.
- **Procurement**: The DMO has saved £0.7 million by securing better value for money in Procurement. Procurement saving initiatives included negotiating supplier price reduction in specific business areas and investment in new technology that will be easier to maintain.

7.59 Maintaining the quality of the service was an explicit requirement of the main efficiency implementation projects. The impact of each saving initiative on the quality of DMO outputs was treated as a project target and assessed immediately after implementation for the Corporate Service efficiencies and for those Procurement efficiencies that involved a specific service change.

7.60 Of the Corporate Service efficiencies, the two largest were brought about by technological developments that enabled enhanced risk management processes and outputs. Timeliness of delivery was a further qualitative measure of success. Regular meetings are held with external groups affected by the changes to ensure that, amongst other things, their requirements as customers of the service continue to be met.

7.61 Of the two largest procurement savings, one was brought about by technological change to provide a more cost effective route for data management and with it a demonstrably improved service allowing cost savings for all service users as well as the DMO. The other was brought about by a negotiated reduction of prices with no change to the service.

Group Shared Services

7.62 The previously separate corporate services of the Group bodies now participating in Group Shared Services had achieved £1.8 million efficiencies as at 31 December and £1.8 million as at 31 March. These savings have been achieved 18 months early and further savings will be made in 2007CSR. A key achievement so far has been the establishment of the Group Finance & Procurement team. Compared to the previously separate finance and procurement teams of the Treasury and the OGC, the new Group team has been reduced by 13 posts, and relocated 10 posts to Norwich. Procurement compliance and efficiency is being promoted with strong support from the Board, payment performance is improving, and through the adoption of a single accounting system for the Group and the integration of monthly and year end reporting, the speed and quality of financial reporting has been improved.

Headcount and Relocation Targets

7.63 To support the delivery of its efficiency plans, the Treasury Group has a target to reduce its headcount by 150 full-time equivalent staff by 31 March 2008: Core Treasury will meet all of this reduction. By 31 March, the size of Core Treasury had fallen by 131 staff, with a reduction of 156 staff for the Treasury Group overall.

7.64 In response to the Lyons review, the Treasury Group committed to relocating 26.5 posts out of London by 2007-08, and this commitment has been exceeded. OGCbuying.solutions has relocated all of its planned 22 posts (15 to Liverpool and 7 to Norwich). Group Shared Services have so far relocated 10 posts from London to Norwich.

Embedding Efficiency

7.65 The Treasury Group efficiency programme has already enabled real and considerable savings across the Group through ensuring:

- policy resources are better focussed on delivering our PSA targets effectively and efficiently;
- policy resources are able to respond more flexibly to new priorities; and
- there is a best practice procurement strategy that delivers value for money.

7.66 In the 2006 Budget, the Treasury agreed a settlement of minus 5 per cent in real terms each year from 2008-09 to 2010-11. To build on the efficiencies already achieved, and as part of the response to the 2007CSR, a series of zero based reviews were undertaken across the Group, including reviews of corporate services. A Group Shared Services (GSS) Programme has been established to implement and build upon the efficiency opportunities identified through the reviews. The programme is being overseen by a Programme Implementation Board (PIB) which is chaired by the Treasury Director of Operations and includes senior membership from OGC, DMO and OGCbuying.solutions.

7.67 GSS is currently in the process of implementing and enabling further efficiencies including:

- rationalisation of the HMT estate and optimising the use of the 1 Horse Guards Road building;
- standardisation of processes and working practices;
- sharing and rationalisation of information systems;
- collaborative procurement - increasing buying power and value for money; and,
- reductions in the number of line management posts.

7.68 These are key enablers to embedding a culture of efficiency within corporate services and other functions within the Treasury Group in the 2007CSR Period. GSS is also committed to ensuring readiness for transition to a larger shared services solution, when the market matures, if it offers economies of scale and appropriate standards of quality.

Nicholas Macpherson, Permanent Secretary
22 May 2007

SECTION 2: RESOURCE ACCOUNTS

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

HM Treasury Resource Accounts

For the year ended 31 March 2007

A: STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

A1 Under the Government Resources and Accounts Act 2000, the Department is required to prepare Resource Accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

A2 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.

A3 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.

A4 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;
iv) prepare the accounts on a going-concern basis.

A5 Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the Debt Management Office and the Office of Government Commerce. The additional Accounting Officers are responsible for use of resources and associated assets, liabilities and cash flows under their control. The Chief Executive of the Debt Management Office (Robert Stheeman) is Accounting Officer for the Debt Management Office and the acting Chief Executive of the Office of Government Commerce (Peter Fanning) is Accounting Officer for the Office of Government Commerce. These appointments do not detract from my overall responsibility for the Treasury's accounts.

A6 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting. Under the terms of the Accounting Officers' Memorandum, the relationship between the Department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.

A7 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
22 May 2007

B: STATEMENT ON INTERNAL CONTROL 2006-07

Scope of Responsibility

B1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Treasury Group[1] 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.

B2 For the period covered by this report – 2006-07 – immediate responsibility for the systems of internal control in the Office of Government Commerce (OGC) and in the UK Debt Management Office (DMO) lay with their respective Chief Executives as Additional Accounting Officers. The role of Accounting Officer is defined by Government Accounting[2] and the division of responsibility between HM Treasury and the Accounting Officers of its other bodies is set out in a separate Memorandum (the AO Memorandum is Annex 4.1 of Government Accounting). 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

B3 The system of internal control is designed to manage risk to a reasonable level rather than completely to eliminate all risk of failure to achieve policies, aims and objectives. Internal control can only provide reasonable and not absolute assurance of effectiveness to achieve policies, aims and objectives.

B4 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; and
- manage these risks in order to achieve effective and efficient operations, reliable financial reports and compliance with appropriate laws and regulations.

B5 The system of internal control for the Treasury Group is regularly reviewed and is subject to ongoing improvements. As set out in Chapter 6, in 2006-07 changes have been made to enhance the oversight of the Treasury Board across the whole of the Treasury Group and establish greater consistency across the Group in areas such as financial control.

Significant Internal Control Issues 2006-07

B6 No significant internal control issues in the Treasury Group were identified in 2006-07.

The Risk and Control Framework and Capacity to Manage Risk

B7 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. Individual Managing Directors and the Additional Accounting Officers have delegated responsibility for ensuring that risks in their areas are appropriately dealt with. Individual organisations within the Group have in the past had their own risk management and control frameworks, as detailed on page 105. These have been reviewed during the last year and, where appropriate, amended to reflect the Group context.

[1] Comprising HM Treasury, the Office of Government Commerce and the United Kingdom Debt Management Office.
[2] Annex 4.1 http://www.government-accounting.gov.uk/current/frames.htm

B8 HM Treasury has 28 Public Service Agreements and key outcomes against which its performance is measured. The owner of each Public Service Agreement (PSA) target reports quarterly to the Treasury Board on targets at risk of underperformance, identifying mitigating actions. In addition, the Treasury Board has a programme of strategic horizon scanning activities designed to identify possible longer-term events and externalities that may impact on the Group objectives and performance.

B9 As set out in Chapter 6 of this report, the 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.

B10 The Group Operations Committee and the Group Finance Committee manage operational and financial risks on behalf of the Board, informed by monthly reporting on Human Resources (HR), finance, efficiency and other corporate metrics. In 2006-07, the risk processes for each committee have been further developed to ensure that they reflect Group risks, not only core Treasury risks.

B11 The Group Resource Audit Committee and the Exchequer Funds Audit Committee have responsibility for oversight of the Treasury Group's governance, internal control and risk management processes and behaviours. In its role as programme board for the Department's Comprehensive Spending Review (CSR) implementation programme, the Group Executive Committee has responsibility for managing risk relating to implementation of the Treasury's CSR settlement.

B12 The Treasury's risk management framework and business planning processes require staff to identify and manage risks associated with the Treasury's work programme. 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 when appropriate.

B13 The Board delegates responsibility for day-to-day operational and policy issues which affect HM Treasury to the Executive Management Group, which can take urgent decisions on behalf of the Treasury Board between Board meetings. The Executive Management Group manages and controls risks across core Treasury on a day-to-day basis. Senior managers identify and manage risks as part of the work programme in each directorate, reviewed across the year by the Board and the Permanent Secretary. Groups of officials are convened as required to review emerging areas of risk in priority areas.

B14 Risks to the Treasury's internal financial controls are reviewed as part of the devolved business planning process, with particular attention paid to risks with a high potential financial impact. Systems and processes are designed to encompass effective and proportional internal control measures and are regularly reviewed by audit.

B15 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 mitigating 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. OGC high-level risks are now incorporated in the Treasury Board Risk Register.

B16 The DMO has various formal mechanisms for managing its risks. A strong risk management culture is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO's risk management strategy seeks to maintain a strong risk management culture by linking organisational objectives to the business planning process. All teams have documented procedures for their main activities. Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed.

Review of Effectiveness

B17 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.

B18 Ongoing review of the effectiveness of the control and risk management system across the Group is provided by:

- the Treasury Board which meets eight times a year to consider the plans and strategic direction of the Group;
- the senior management team of OGC and DMO who have their own control and risk framework structures and provide me with assurances on their internal control;
- 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 formal meetings with HM Treasury Managing Directors and directorate management teams twice yearly to review directorate work plans and risks;
- 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.

Internal Audit

B19 During the period of the Statement on Internal Control, the Internal Audit strategy was to undertake a risk-based audit approach, which was 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.

B20 In November 2006 a Group Head of Internal Audit was appointed and in February 2007 the OGC and Treasury Internal Audit teams were merged. Recruitment of new staff to fill vacancies and a Group approach has started to allow better deployment of audit skills across the Group.

B21 The Chair of each Audit Committee had regular meetings with the Permanent Secretary or Accounting Officer. 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.

B22 Over the financial year 2006-07 internal audits have been conducted in Treasury, OGC and DMO designed 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. The Group Head of Internal Audit has given me such assurance. Where possible improvements to the processes were recommended, the Group Head of Internal Audit has reported that he is satisfied that management action has been taken or is in progress to mitigate any significant risks. It is the Group Head of Internal Audit's opinion that there are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement on Internal Control.

Nicholas Macpherson
Permanent Secretary
22 May 2007

C: MINISTERS' AND SENIOR MANAGERS' REMUNERATION REPORT

Remuneration Policy

C1 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 Chapter 7.1, Annex A of the Civil Service Management Code.

C2 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.

C3 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

C4 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.

C5 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. Early termination has been agreed for John Oughton, following the conclusion of his work on the review *Transforming Government Procurement*. This led to a charge to resources of £612,000, included within the £3,184,000 transfer to provisions shown in note 7.2 on page 131. The main elements of Mr Oughton's compensation giving rise to the charge of £612,000 are a payment of £68,500 being 6 months' pay in lieu of notice, and early retirement on 1 April 2007 at age 54, with pension payable from 1 April and entitlements increased as if he had worked to normal retirement age. The additional years' service contribute to the increases in the value of his annual pension and lump sum shown in the table on page 109, and £179,000 out of the £225,000 increase in the Cash Equivalent Transfer Value (CETV) also shown in the table. Mr Oughton's pension over the 5 and a half years between 1 April and his reaching age 60 will be an aggregate of £356,000 (subject to indexation). This is not reflected in the CETV, which measures the present value of the pension at age 60, but it is included in the £612,000 charge to resources.

C6 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

C7 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.

Salaries and Pensions of Ministers

Name	2006-07 Salary and full year equivalent (FYE) (£)	2006-07 Benefits in kind (nearest £100)	2005-06 Salary and full year equivalent (FYE) (£)	2005-06 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/07 (£k)	Real increase in pension at age 65 (£k)	CETV at 31/03/07 or end date (nearest £k)	CETV at 31/03/06 or start date (nearest £k)	Real increase in CETV (nearest £k)
Gordon Brown Chancellor of the Exchequer	74,902	7,500	74,902	7,500	15 - 20	0 - 2.5	236	205	14
Stephen Timms Chief Secretary to the Treasury (from 05/05/06)	67,925 (FYE 74,902)	-	-	-	5 - 10	0 - 2.5	84	70	5
Financial Secretary to the Treasury (to 05/05/05)	-	-	6,476 (FYE 38,854)	-					
Des Browne Chief Secretary to the Treasury (from 09/05/05 to 04/05/06)	12,484 (FYE 75,651)	-	58,636 (FYE 74,902)	-	0 - 5	0 - 2.5	49	48	1
Paul Boateng Chief Secretary to the Treasury (to 05/05/05)	-	-	25,974 (FYE 74,902)	-	NA	NA	NA	NA	NA
Dawn Primarolo Paymaster General	38,854	-	38,854	-	5 - 10	0 - 2.5	129	103	15
John Healey Financial Secretary to the Treasury (from 09/05/05)	38,854	-	34,702 (FYE 38,854)	-	0 - 5	0 - 2.5	43	33	4
Economic Secretary to the Treasury (to 05/05/05)	-	-	3,151 (FYE 29,491)	-					
Ed Balls Economic Secretary to the Treasury (from 05/05/06)	26,637 (FYE 29,491)	-	-	-	0 - 5	0 - 2.5	5	-	2
Ivan Lewis Economic Secretary to the Treasury (from 09/05/05 to 04/05/06)	6,476 (FYE 29,786)	-	24,562 (FYE 29,491)	-	0 - 5	0 - 2.5	27	26	-

CETV stands for Cash Equivalent Transfer Value, explained on page 112.

Salaries and Pensions of Senior Management

Name	2006-07 Salary range and full year equivalent (FYE) (£000)	2006-07 Benefits in kind (nearest £100)	2005-06 Salary range and full year equivalent (FYE) (£000)	2005-06 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/07 (Range £k)	Real increase in pension at age 60 (Range £k)	CETV at 31/03/07 or end date (nearest £k)	CETV at 31/03/06 or start date (nearest £k)	Real increase in CETV (nearest £k)
Nicholas Macpherson Permanent Secretary (from 02/08/05)	170 - 175	20,200	100 - 105 (FYE 155 - 160)	15,700	40 - 45 plus lump sum 130 –135	2.5 - 5 plus lump sum 10 – 12.5	713	642	60
Managing Director (to 01/08/05)	-	-	55 - 60 (FYE 125 - 130)	-					
Sir Gus O'Donnell Permanent Secretary (to 31/07/05)	-	-	75 - 80 (FYE 175 - 180)	7,500	NA	NA	NA	NA	NA
Jon Cunliffe Second Permanent Secretary (from 16/11/05)	140 - 145	-	45 - 50 (FYE 130 - 135)	-	45 - 50 plus lump sum 135 - 140	2.5 - 5 plus lump sum 10 - 12.5	890	795	68
Managing Director (to 15/11/05)	-	-	85 - 90 (FYE 120 - 125)	-					
Sir Nicholas Stern Second Permanent Secretary (to 13/10/05)	-	-	95 - 100 (FYE 160 - 165)	-	NA	NA	NA	NA	NA
John Oughton Chief Executive OGC (to 31/03/07)	160 - 165	20,300	135 - 140	18,300	60 - 65 plus lump sum 190 - 195	10 - 12.5 plus lump sum 35 - 37.5	1,241	982	225
Robert Stheeman Chief Executive DMO	125 - 130	-	120 - 125	-	5 - 10	0 - 2.5	104	79	20
Sam Beckett Director of Operations (part-time basis) (maternity leave from 09/05/05 to 21/12/05)	65 - 70	-	55 - 60 (FYE 75 - 80)	-	15 - 20 plus lump sum 50 - 55	0 - 2.5 plus lump sum 2.5 - 5	225	212	11

Salaries and Pensions of Senior Management continued

Name	2006-07 Salary range and full year equivalent (FYE) (£000)	2006-07 Benefits in kind (nearest £100)	2005-06 Salary range and full year equivalent (FYE) (£000)	2005-06 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/07 (Range £k)	Real increase in pension at age 60 (Range £k)	CETV at 31/03/07 or end date (nearest £k)	CETV at 31/03/06 or start date (nearest £k)	Real increase in CETV (nearest £k)
Tamara Finkelstein Interim Director of Operations (from 09/05/05 to 06/10/05)	-	-	30 - 35 (FYE 75 - 80)	-	NA	NA	NA	NA	NA
Sue Owen Interim Director of Operations (from 10/10/05 to 08/01/06)	-	-	15 - 20 (FYE 75 - 80)	-	NA	NA	NA	NA	NA
Michael Ellam Director of Policy and Planning (from 02/08/05)	85 - 90	-	50 - 55 (FYE 75 - 80)	-	10 - 15 plus lump sum 40 - 45	0 - 2.5 plus lump sum 2.5 - 5	164	151	12
Mary Keegan Managing Director and Finance Director	170 - 175	-	160 - 165	-	0 – 5	0 - 2.5	50	48	-
John Kingman Managing Director (from 10/01/06)	110 - 115	-	20 - 25 (FYE 90 - 95)	-	15 - 20 plus lump sum 55 - 60	2.5 - 5 plus lump sum 10 -12.5	222	182	39
Mark Neale Managing Director (from 12/12/05)	120 - 125	-	25 - 30 (FYE 105 - 110)	-	35 - 40 plus lump sum 110 - 115	0 - 2.5 plus lump sum 2.5 -5	633	602	14
James Sassoon Managing Director (to 10/01/06)	-	-	135 - 140 (FYE 165 - 170)	-	NA	NA	NA	NA	NA
Jonathan Stephens Managing Director (to 01/10/06)	70 - 75 (FYE 110 - 115)	-	115 - 120	-	30 - 35 plus lump sum 95 - 100	0 - 2.5 plus lump sum 0 - 2.5	541	531	6

Where full year equivalent (FYE) salary figures are shown, they do not include any bonuses payable. John Oughton's salary for 2006-07 includes an additional £19.5k (non-pensionable) in respect of accrued annual leave.

Salary

C8 'Salary' includes gross salary; performance pay or bonuses paid during the year; 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.

C9 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 (£60,277 from 1 November 2006, £59,686 from 1 April 2006, 2005-06 £59,095) 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

C10 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

C11 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).

C12 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.

C13 Benefits for ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

C14 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

C15 Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

C16 Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

C17 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

C18 The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

C19 Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

C20 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.

Real Increase in CETV

C21 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

Name	2006-07 Fees range (£000)	2006-07 Benefits in kind (rounded to nearest £100)	2005-06 Fees range (£000)	2005-06 Benefits in kind (rounded to nearest £100)
Sir Peter Gershon	5 - 10	-	5 - 10	-
Stella Manzie	5 – 10	-	5 - 10	-
William Sargent	5 - 10	-	5 - 10	-
Sir Nicholas Stern (from 13-12-05)	Nil	-	Nil	-
Sir David Varney	Nil	-	Nil	-

C22 Sir Peter Gershon has been undertaking a review of certain aspects of the Government's Efficiency Programme, for which he received no additional remuneration.

C23 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.

C24 In addition to being a non-executive member of the Treasury Board, William Sargent was also chairman of the Group Resource Audit Committee for which he received remuneration of £2.5k - £5k.

C25 Sir Nicholas Stern's role as a non-executive member of the Treasury Board remained unchanged during the year and was not remunerated. His salary in his role as Head of the Stern Review and Adviser to the Government on the Economics of Climate Change and Development has been met in equal shares (in the range £85k - £90k) by the Treasury and the Cabinet Office. He retired on 10 May 2007 and also stepped down as Head of the Government Economic Service.

C26 Sir David Varney's role as a non-executive member of the Treasury Board remained unchanged during the year and was not remunerated. He served as the Chancellor's senior advisor on transformational government from 1 September 2006 to 31 January 2007. The Treasury met his salary costs (in the range £60k - £65k) and provided a car during this time. Private use of the allocated car, in circumstances permitted by the Civil Service Management Code, amounted to a taxable benefit of £6.5k. Previously he had been Chairman of HM Revenue and Customs. From 22 March 2007 he has 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 is due to report in the autumn. For his work on the review he will not receive any additional remuneration.

Nicholas Macpherson
Permanent Secretary
22 May 2007

D: 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 2007 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 Cashflow 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 Annual Report, 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, certain information given in the Annual Report, which comprises the Introduction; Chapter 6: Managing Ourselves; and Chapter 7: Managing the Money sections of the Departmental Report; and the unaudited part of the remuneration report, 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 Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. 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 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows 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 given within the Annual Report, which comprises the Introduction; Chapter 6: Managing Ourselves; and Chapter 7: Managing the Money sections of the Departmental Report; and the unaudited part of the remuneration report, is consistent with the financial statements.

Audit 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.

John Bourn
Comptroller and Auditor General

24 May 2007

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

Statement of Parliamentary Supply
for the year ended 31 March 2007

								2006-07	2005-06
				Estimate			Outturn	Net Total Outturn compared with Estimate	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	237,618	(10,623)	226,995	218,443	(10,622)	207,821	19,174	207,687
Request for Resources 2	3	51,749	(1,500)	50,249	45,652	(1,499)	44,153	6,096	33,335
Request for Resources 3	3	62,783	(16,084)	46,699	60,334	(15,306)	45,028	1,671	55,207
Total Resources	**3**	**352,150**	**(28,207)**	**323,943**	**324,429**	**(27,427)**	**297,002**	**26,941**	**296,229**
Non-Operating Cost A-in-A				-			-	-	1,380
Net Cash Requirement	**5**			**229,040**			**211,820**	**17,220**	**204,604**

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 2006-07		**Outturn 2006-07**	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Total (Note 9.2)	73,078	*1,189*	127,380	*93,801*

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 122 to 154 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2007

	Note	2006-07 Core Treasury £000	2006-07 Group Total £000	2005-06 Core Treasury (restated) £000	2005-06 Group Total (restated) £000
Administration costs					
Staff costs	6.1	62,692	95,195	62,080	92,628
Other administration costs	7	46,844	84,866	48,360	88,534
Gross administration costs before exceptional items		**109,536**	**180,061**	**110,440**	**181,162**
Operating income	9	(6,386)	(25,401)	(5,362)	(24,643)
Net administration costs before exceptional items		**103,150**	**154,660**	**105,078**	**156,519**
Exceptional item – building revaluation	7	-	-	(4,858)	(4,858)
Net administration costs after exceptional items		**103,150**	**154,660**	**100,220**	**151,661**
Programme costs					
Request for Resources 1: Core Treasury and DMO					
Expenditure	8	94,620	96,812	97,563	101,385
Less: income	8 & 9	(121,406)	(122,756)	(78,875)	(82,335)
		(26,786)	**(25,944)**	**18,688**	**19,050**
Request for Resources 2: Coinage					
Expenditure	8	45,652	45,652	33,835	33,835
Less: income	8 & 9	(1,499)	(1,499)	(908)	(908)
		4,153	**44,153**	**32,927**	**32,927**
Request for Resources 3: OGC					
Expenditure	8	-	1,904	-	11,000
Less: income	8 & 9	-	(1,964)	-	(2,017)
		-	**(60)**	**-**	**8,983**
Expenditure outside Supply process					
Banking and gilts registration services	33&8	12,025	12,025	10,415	10,415
Net programme costs		**29,392**	**30,174**	**62,030**	**71,375**
Total net operating costs		**132,542**	**184,834**	**162,250**	**223,036**

Statement of Recognised Gains and Losses
for the year ended 31 March 2007

	Note	2006-07 Core Treasury £000	2006-07 Group Total £000	2005-06 Core Treasury £000	2005-06 Group Total £000
Net gain on revaluation of tangible fixed assets	11	-	-	-	1,150
Net (loss)/gain on revaluation of fixed investments	13	128,045	128,045	101,293	101,293
Other recognised (losses)/gains for the financial year		**128,045**	**128,045**	**101,293**	**102,443**

The notes on pages 122 to 154 form part of these accounts.

Balance Sheet
as at 31 March 2007

	Note	2007 Core Treasury £000	2007 Group £000	2006 Core Treasury £000	2006 Group £000
Fixed assets					
Tangible assets	11	97,737	107,873	101,231	113,006
Intangible assets	12	245	2,577	548	3,082
Investments	13	1,886,070	1,889,136	1,758,025	1,764,270
Total fixed assets		**1,984,052**	**1,999,586**	**1,859,804**	**1,880,358**
Debtors: falling due after more than one year	15	6,975	7,049	6,652	6,661
Current assets					
Surplus property	14	-	-	-	-
Coinage scrap metal stocks (non-Supply)		200	200	565	565
Debtors: due within one year	15	89,813	95,600	53,226	59,654
Cash at bank and in hand	16	4,308	8,558	3,721	7,057
Total current assets		**94,321**	**104,358**	**57,512**	**67,276**
Creditors: amounts falling due within one year	17	(111,210)	(125,321)	(80,859)	(97,604)
Net current liabilities		(16,889)	(20,963)	(23,347)	(30,328)
Total assets less current liabilities		**1,974,138**	**1,985,672**	**1,843,109**	**1,856,691**
Creditors: amounts falling due after more than one year	17	(152,443)	(152,610)	(150,468)	(150,468)
Provisions for liabilities and charges	19	(2,892)	(15,546)	(3,177)	(14,075)
Net assets		**1,818,803**	**1,817,516**	**1,689,464**	**1,692,148**
Taxpayers' equity					
General fund	20	1,245,634	1,241,230	1,244,340	1,243,907
Revaluation reserve	21	573,169	576,286	445,124	448,241
		1,818,803	**1,817,516**	**1,689,464**	**1,692,148**

Nicholas Macpherson
Permanent Secretary
22 May 2007

The notes on pages 122 to 154 form part of these accounts.

Consolidated Cash Flow Statement
for the year ended 31 March 2007

	2006-07 £000	2005-06 (restated) £000
Net cash outflow from operating activities	(118,299)	(124,774)
Cash inflow from capital expenditure and financial investment	1,717	10,415
Payments of amounts due to the Consolidated Fund	(92,065)	(110,032)
Financing	210,149	202,646
Increase/(decrease) in cash in the period	**1,502**	**(21,745)**

Notes to the Consolidated Cash Flow Statement

Reconciliation of operating cost to operating cash flows	Note	£000	£000
Net operating cost	10	184,834	223,036
Transfer to HMRC in respect of OPG	2	-	513
Adjust for non-supply costs	3.3 & 8	(12,025)	(10,415)
Adjust for non-cash transactions	8.1	(97,749)	(89,003)
Changes in working capital other than cash	18	44,254	1,969
Consolidation adjustment		-	(89)
Indexation of PFI creditor		(3,588)	(4,745)
Use of provisions	19	2,573	3,508
Net cash outflow from operating activities		**118,299**	**124,774**

Analysis of capital expenditure and financial investment	Note	£000	£000
Cash paid for tangible fixed assets		167	3,276
Cash paid for intangible fixed assets		1,303	1,700
Proceeds of disposals of fixed assets	9.3	(8)	(12)
Proceeds of disposals of surplus freehold property		-	(13,000)
(Repayments) from other bodies	13	(3,179)	(2,379)
Net cash outflow/(inflow) from investing activities		**(1,717)**	**(10,415)**

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	877	-	-	877
Request for Resources 2	-	-	-	-
Request for Resources 3	1,506	-	-	1,506
Net movement in debtors/creditors	913	-	-	913
Total 2006-07	**3,296**	**-**	**-**	**3,296**
Total 2005-06	4,976	-	(1,380)	3,596

Analysis of financing	Note	2006-07 £000	2005-06 £000
From the Consolidated Fund (Supply): current year	20	211,279	203,955
Capital element of payments in respect of on balance sheet PFI contracts	17	(1,436)	(1,309)
Advance from the Contingencies Fund	16.1	306	-
Net cash inflow from financing		**210,149**	**202,646**

The notes on pages 122 to 154 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

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

Objectives:	Gross Expenditure £000	Income £000	2006-07 Net £000	Gross Expenditure £000	Income £000	2005-06 (restated) Net £000
I	138,988	(51,318)	87,670	119,016	(34,365)	84,651
II	12,461	(215)	12,246	12,525	(708)	11,817
III	52,105	(78,483)	(26,378)	54,493	(53,219)	1,274
IV	11,368	(200)	11,168	11,906	(583)	11,323
V	12,269	(297)	11,972	18,088	(1,004)	17,084
VI	90,585	(20,344)	70,241	102,230	(19,531)	82,699
VII	11,052	(37)	11,015	11,411	(387)	11,024
VIII	2,885	(726)	2,159	3,394	(88)	3,306
Other costs	4,741	-	4,741	4,734	(18)	4,716
Exceptional items	-	-	-	(4,858)	-	(4,858)
Net operating cost	**336,454**	**(151,620)**	**184,834**	**332,939**	**(109,903)**	**223,036**
Reconciliation to Resource Budget outturn						
Per Table 7.2 in Chapter 7 (page 88)						
Net operating cost, as above			184,834			223,036
Less non-budget income						
Pool Re (Objective III)			36,292			29,263
Other (Objective III)			323			343
Add non-voted expenditure:						
Civil List, net (other)			8,259			8,259
Royal Household Pensions: (other)			2,006			1,973
Net resource outturn			**231,714**			**262,874**

The department's 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; and
Objective VIII	Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies.
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. The other resources not falling under the eight main objectives include the grants to the Parliamentary bodies (£3m) and the salary costs of the Prime Minister and the Government Whips.

The costs allocated to Objective I are net coinage costs including cost of capital charges on the Royal Mint (together £44.2m in 2006-07 and £32.9m in 2005-06), half of the net cost of investment in the Bank of England (£0.4m in 2006-07 and £18.0m in 2005-06), and banking and gilts registration services (£12.0m in 2006-07 and £10.4m in 2005-06), as well as the direct costs of the DMO, core Treasury policy team costs and apportioned central costs. The £3m increase in net resources attributable to Objective I over the two years is mainly made up of the increase in the coinage cost, offset by the fall in the net cost of investment in the Bank of England arising from the exceptional dividend receivable in 2006-07.

Objective III includes the other half of the net cost of investment in the Bank of England (£0.4m in 2006-07 and £18.0m in 2005-06) and insurance premiums receivable from Pool Re (£36.3m in 2006-07 and £29.4m in 2005-06). Gross expenditure on Objective III is lower in 2006-07 because 2005-06 included £4m extra spending on the marketing of stakeholder savings and investment products.

Objective V gross expenditure is lower in 2006-07 because 2005-06 included the Treasury's costs of the UK's joint presidencies of the G7 and G8, and Objective VI expenditure is lower because 2005-06 included OGC's Efficiency Challenge Fund costs.

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

The notes on pages 122 to 154 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 2008-09, 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.

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) and the Bank of England (incorporated by Royal Charter) 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. The FReM for 2006-07 required annual revaluation, using as the estimation technique for valuation either appropriate indices or other appropriate information sources or professional review. The FReM for 2007-08 has been amended to allow, for non-property assets with a low value and/or short useful economic life, the use of depreciated historical cost as a proxy for current value. 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; the requirement in the 2006-07 FReM for revaluations in each of the years between professional quinquennial valuations has been discontinued.

The Treasury has adopted the provisions of the 2007-08 FReM in its 2006-07 Resource Accounts. Land and buildings are professionally valued every five years or when material changes are known to have arisen, as before, and are subject to an interim professional review three years after each full valuation. 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. Antiques in use are stated at estimated market value as at 31 March 2007.

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.

1.7 Stocks

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

1.8 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 HMT 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% (2005-06: 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%) (2005-06: 4.94%), the Royal Mint (3.5%) (2005-06: 3.5%) and OGCbuying.solutions (6.5%) (2005-06: 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;
- donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General where the charge is nil;
- 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% (2005-06: 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% (2005-06: 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 Government Accounting. 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 TO HM REVENUE AND CUSTOMS

With effect from April 2006, responsibility for the Office of Paymaster General (OPG) transferred from the Treasury to HM Revenue and Customs (HMRC), resulting in 8 full time equivalent posts being transferred to HMRC. Following the disclosure requirements of FRS 6, prior year comparatives have been restated to exclude these costs.

The direct cost of the OPG function transferred from Request for Resources 1 were:

	2005-06 £000
Staff costs	274
Other admin costs	16
Programme income	(6,027)
Programme costs	6,250
Total	**513**

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

								2006-07	2005-06
	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 (restated)
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1									
Departmental Expenditure Limit									
Core Treasury	109,536	6,230	-	115,766	(5,922)	109,844	115,482	5,638	110,164
DMO	12,095	2,192	-	14,287	(4,700)	9,587	9,903	316	10,020
Parliamentary	-	-	3,060	3,060	-	3,060	3,060	-	3,095
Statistics Commission	-	-	1,350	1,350	-	1,350	1,350	-	1,342
Annually Managed Expenditure									
Investment in Bank of England	-	83,980	-	83,980	-	83,980	96,200	12,220	83,066
HMS Sussex	-	-	-	-	-	-	1,000	1,000	-
	121,631	**92,402**	**4,410**	**218,443**	**(10,622)**	**207,821**	**226,995**	**19,174**	**207,687**
Request for Resources 2									
Departmental Expenditure Limit									
UK Coinage	-	44,070	-	44,070	(1,499)	42,571	43,201	630	32,131
Annually Managed Expenditure									
UK Coinage	-	1,582	-	1,582	-	1,582	7,048	5,466	1,204
	-	**45,652**	**-**	**45,652**	**(1,499)**	**44,153**	**50,249**	**6,096**	**33,335**
Request for Resources 3									
Departmental Expenditure Limit									
OGC	**58,430**	**1,904**	**-**	**60,334**	**(15,306)**	**45,028**	**46,699**	**1,671**	**55,207**
Resource Outturn	**180,061**	**139,958**	**4,410**	**324,429**	**(27,427)**	**297,002**	**323,943**	**26,941**	**296,229**
Banking and gilts registration services (expenditure outside Supply process (note 3.3))						12,025			10,415
Operating income payable to the Consolidated Fund (note 9.2)						(124,193)			(83,095)
Transfer of Function in respect of OPG (note 2)						-			(513)
Net Operating Cost						**184,834**			**223,036**

Virement of £10k has been approved in relation to the grants to the Parliamentary bodies.

The UK coinage cost within DEL in this note includes both manufacturing costs and metal costs. As explained in Chapter 7, paragraph 7.21, the metal element of the cost of coinage has been reclassified as AME with effect from 1 April 2007.

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 2006-07 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. Compared to 2005-06 outturn and the provision in the Main Estimate, the cost of UK circulating coinage (Request for Resources 2) increased by £10m due mainly to rises in metal prices (see paragraph 7.20 of Chapter 7 on page 92). This was managed by reallocation of resources from Request for Resources 1 to Request for Resources 2, via the Spring Supplementary Estimate.

Compared to the Spring Supplementary Estimate, Request for Resources 1 (Core Treasury and DMO) was underspent by £19.2m, or 8.4%. £12.2m of the underspend was on the cost of capital charge on the Bank of England. The provision for the cost of capital charge in the Main Estimate was based on the Spending Review 2004 allocation of funding. The underspend was anticipated at the time of the Spring Supplementary Estimate, but the Estimates process does not allow for overall resources to be reduced, so it was not possible to bring the Spring Supplementary Estimate more closely in line with forecasts. Similarly, the Treasury's internal forecasting showed that it would underspend the provision for the core Treasury (actual underspend £5.6m), but the overall provision could not be reduced.

£1.0m was provided in the Spring Supplementary Estimate for cost of capital charges on saleable artefacts recovered from the wreck of HMS Sussex. The excavation of the wreck was further delayed by discussions with the Spanish government, so no artefacts have been recovered and no cost of capital charge arose. Responsibility for any saleable artefacts has now been transferred to the Ministry of Defence.

Request for Resources 2 (UK coinage) was underspent by £6.1m, or 12.1%. £5.5m of this relates to the cost of capital charge on the Treasury's investment in the Royal Mint. As with the cost of capital charge on the investment in the Bank of England, the underspend was anticipated, but the Estimates process did not allow for any further reduction in the Estimate. The Estimate for the cost of coinage was underspent by £0.6m, or 1.5%. The supply of new coinage is demand led, so cannot be forecast with absolute accuracy.

Request for Resources 3 (OGC) outturn was within £1.7m or 3.6% of the total Estimate of £46.7m.

See also Chapter 7, pages 86 to 99.

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.

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

4.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note			2006-07	2005-06
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn (restated)
		£000	£000	£000	£000
Net Resource Outturn	3	297,002	323,943	26,941	296,229
Non-supply income (CFERs)	9	(124,193)	(70,548)	53,645	(83,095)
Non-supply Expenditure	3	12,025	23,804	11,779	10,415
Transfer of function in respect of OPG	2	-	-	-	(513)
Net operating cost		**184,834**	**277,199**	**92,365**	**223,036**

The Estimate figure (£23,804k) for non-supply expenditure includes Civil List (£8,259k) and Royal Household Pensions (£2,014k), which are not reported in the Resource Accounts.

4.2 Outturn Against Final Administration Budget

	Note		2006-07	2005-06
		Budget	Outturn	Outturn (restated)
		£000	£000	£000
Gross Administration Budget	3	185,417	180,061	176,304
Income allowable against the Administration Budget	9	(23,320)	(22,345)	(21,331)
Net outturn against final Administration Budget		**162,097**	**157,716**	**154,973**

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	**323,943**	**297,002**	**26,941**
Capital:				
Acquisition of fixed assets – resources	11 & 12	7,200	2,383	4,817
Accrual adjustments				
Non-cash items	7 & 8	(112,281)	(97,749)	(14,532)
Changes in working capital other than cash	18	-	9,763	(9,763)
Change in PFI creditor	17	-	(2,152)	2,152
Use of provision	19	10,178	2,573	7,605
Net Cash Requirement		**229,040**	**211,820**	**17,220**

As noted in the Estimates Memorandum submitted in February to the Treasury Select Committee with the Spring Supplementary Estimate, the Treasury expected an underspend against the Net Cash Requirement of around £14m, but the Estimates process does not enable the Net Cash Requirement to be reduced from the level set in the Main Estimate.

6. STAFF NUMBERS AND COSTS

6.1 Analysis of Total Costs Over Categories

	Ministers £000	Special Advisors £000	Permanent staff £000	Others £000	2006-07 Total £000	2005-06 (restated) Total £000
Wages and salaries	1,716	588	65,258	7,489	75,051	73,973
Social Security costs	173	71	5,994	-	6,238	6,066
Other pension costs	-	118	13,788	-	13,906	12,589
Total costs	**1,889**	**777**	**85,040**	**7,489**	**95,195**	**92,628**
Less recoveries (income) in respect of outward secondments	-	-	(2,792)	-	(2,792)	(3,258)
Total net costs	**1,889**	**777**	**82,248**	**7,489**	**92,403**	**89,370**
Of which: Core Treasury						
Total costs	1,889	777	56,528	3,498	62,692	62,080
Less recoveries (income) in respect of outward secondments	-	-	(2,324)	-	(2,324)	(2,761)
Total net costs	**1,889**	**777**	**54,204**	**3,498**	**60,368**	**59,319**

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

In addition to the above, £41k (2005-06: £378k) of staff costs have been charged to capital projects. Recoveries of £3,057k (2005-06: £3,258k) 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 2003. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £13,695k were payable to the PCSPS (2005-06: £12,189k) at one of four rates in the range 17.15 to 25.5 per cent (2005-06: 16.2 to 24.6 per cent) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates are unchanged. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 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 £155k (2005-06: £174k) 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 £11k (2005-06: £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 £13k (2005-06: £14k). Contributions prepaid at that date were nil.

6.3 Ill Health Retirement

Two persons (2005-06: three persons) retired early on ill-health grounds, the costs of these 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:

	2006-07					2005-06 (restated)
	Number					Number
Objective	Ministers	Special Advisers	Officials	Others	Total	Total
I	1.0	1.7	327.2	27.0	356.9	323.9
II	0.5	0.8	160.0	7.8	169.1	172.6
III	0.3	0.5	93.7	3.3	97.8	78.7
IV	0.5	0.8	150.8	1.3	153.4	150.2
V	0.5	0.8	148.3	4.9	154.5	181.8
VI	1.9	3.3	630.7	54.9	690.8	696.8
VII	0.2	0.4	74.2	8.1	82.9	85.9
VIII	0.1	0.1	23.6	0.2	24.0	37.1
Staff Engaged on Capital Projects	-	-	-	-	-	8.0
Total	**5.0**	**8.4**	**1,608.5**	**107.5**	**1,729.4**	**1,735.0**
Of which						
Core Treasury	**5.0**	**8.4**	**1,130.0**	**52.5**	**1,195.9**	**1,173.0**

The staff numbers in this table have not been restated for the transfer of staff from OGC's Efficiency Team and corporate services to the core Treasury referred to in Chapter 6, page 84.

6.5 Additional Ministerial Salaries Borne by HM Treasury

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

Official title	Name	2006-07 Salaries £000	2005-06 Salaries £000
Prime Minister	Tony Blair	125 – 130	120 – 125
Chief Whip (Commons)	Hilary Armstrong (to May 2006)	15 – 20	70 – 75
	Jacqui Smith (from June 2006)	60 – 65	-
Deputy Chief Whip (Commons)	Robert Ainsworth	35 – 40	35 - 40
Chief Whip (Lords)	Lord Grocott	120 – 125	120 - 125
Deputy Chief Whip (Lords)	Lord Davies of Oldham	105 – 110	100 - 105
Lords in waiting (6 posts)		605- 610	600 - 605
Government and Assistant Government Whips (14 posts)		360 – 365	375 - 380

7. OTHER ADMINISTRATION COSTS

7.1 Summary	2006-07 Core Treasury £000	2006-07 Group £000	2005-06 (restated) Core Treasury £000	2005-06 (restated) Group £000
Other administration costs	46,844	84,866	48,360	88,534
Exceptional item – building revaluation	-	-	(4,858)	(4,858)
Total	**46,844**	**84,866**	**43,502**	**83,676**
7.2 Detail				
Staff-related costs, including training and travel	6,158	10,207	5,730	9,835
Accommodation costs:				
Interest element of on-balance sheet PFI contract	11,164	11,164	11,015	11,015
Service element of on-balance sheet PFI contract	3,927	3,927	3,992	3,992
Indexation of liability on PFI contract	3,588	3,588	4,745	4,745
Other accommodation costs	3,548	8,896	3,868	9,007
Office services	8,084	14,187	7,905	13,417
Consultancy (see footnote)	3,439	9,410	6,100	18,254
Other Admin professional services (see footnote)	5,012	14,534	3,193	11,941
Non cash items				
Depreciation and similar charges:				
Depreciation and amortisation of fixed assets	2,585	6,552	2,347	5,752
Loss/(gain) on disposal of fixed assets	-	-	532	520
Loss/(gain) on revaluation of 1HGR building	-	-	(4,858)	(4,858)
Loss/(gain) on revaluation of other fixed assets	-	-	603	1,083
Loss on impairment of fixed assets	1,387	1,387	-	-
Auditor's remuneration	115	137	72	134
Cost of capital	(2,667)	(2,366)	(2,599)	(2,296)
Provisions:				
Provided in year	483	3,184	766	904
Release of surplus provision	(17)	(17)	(8)	(8)
Unwinding of discount on provision	38	76	28	105
Increase in provision due to change in discount rate	-	-	34	97
Other	-	-	37	37
Total non cash items	**1,924**	**8,953**	**(3,046)**	**1,470**
Total	**46,844**	**84,866**	**43,502**	**83,676**
Other administration costs include:				
Hire of plant and machinery	87	189	92	193
Other operating leases	4	5,188	-	4,763
Research and development expenditure	-	50	39	107

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

Until 2006-07, recorded consultancy spend has included a number of steady state/operational contracted out professional services. From 2006-07, the Treasury Group has applied OGC's definition of consultancy which relates to time limited advisory, design & development and implementation assignments. This has had the effect in 2006-07 of moving £1,838k (core Treasury) and £4,283k (Group) from the consultancy line to the other admin professional services line. 2005-06 figures have not been restated.

8. NET PROGRAMME COSTS

	2006-07		2005-06 (restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Request for Resources 1				
Current grants	4,410	4,410	4,437	4,437
Cost of capital (non cash)	84,950	84,950	83,982	83,982
Loss on disposal of fixed assets (non cash)	74	74	-	-
Other current expenditure	4,644	6,836	8,887	12,709
Provisions: Provided in year (non cash)	542	542	257	257
	94,620	**96,812**	**97,563**	**101,385**
Request for Resources 2				
Cost of capital (non cash)	1,582	1,582	1,204	1,204
Other current expenditure	44,070	44,070	32,631	32,631
	45,652	**45,652**	**33,835**	**33,835**
Request for Resources 3				
Efficiency Challenge Fund Expenditure	-	(26)	-	8,388
Cost of capital (non cash)	-	1,389	-	1,537
Transfer from leasehold property provision (non cash)	-	(106)	-	(1,227)
Transfer to specific dilapidations & legal provision (non cash)	-	(125)	-	664
Transfer to early retirement provision (non cash)	-	-	-	195
Unwinding of discount on provisions (non cash)	-	490	-	270
Increase in provision due to change in discount rate (non cash)	-	-	-	651
Other current expenditure	-	282	-	522
	-	**1,904**	**-**	**11,000**
Non-supply - Banking and gilts registration services (note 3.3)	**12,025**	**12,025**	**10,415**	**10,415**
Sub total programme costs	**152,297**	**156,393**	**141,813**	**156,635**
Less programme income				
Request for Resources 1 - HM Treasury (note 9)	(121,406)	(122,756)	(78,875)	(82,335)
Request for Resources 2 - UK Coinage (note 9)	(1,499)	(1,499)	(908)	(908)
Request for Resources 3 – OGC (note 9)	-	(1,964)	-	(2,017)
	(122,905)	**(126,219)**	**(79,783)**	**(85,260)**
Net Programme Costs	**29,392**	**30,174**	**62,030**	**71,375**

8.1 Summary of Non Cash Transactions

	2006-07		2005-06 (restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Administration costs non cash items (note 7)	1,924	8,953	(3,046)	1,470
Programme costs non cash items (note 8)	87,148	88,796	85,443	87,533
Total non-cash transactions (cash flow statement and note 5)	**89,072**	**97,749**	**82,397**	**89,003**

9. INCOME AND APPROPRIATIONS IN AID

Operating income analysed by activities:

	2006-07			2005-06 (restated)
	Appropriated in Aid £000	Payable to Consolidated Fund £000	Income included in OCS £000	Income included in OCS £000
Administration income				
Core Treasury	5,323	1,063	6,386	5,362
DMO	3,500	1,993	5,493	4,336
OGC	13,522	-	13,522	14,945
	22,345	**3,056**	**25,401**	**24,643**
Programme income				
Request for Resources 1				
Pool Re insurance premiums (note 9.1)	18	36,292	36,310	29,392
Bank of England dividend	-	83,100	83,100	47,032
Other current programme income	581	666	1,247	1,700
Other dividends and interest	-	749	749	751
DMO	1,200	150	1,350	3,460
	1,799	**120,957**	**122,756**	**82,335**
Request for Resources 2				
Sale of coinage scrap metal	1,499	-	1,499	908
	1,499	**-**	**1,499**	**908**
Request for Resources 3				
Residual Estate	267	-	267	370
Other income	1,517	180	1,697	1,647
	1,784	**180**	**1,964**	**2,017**
Department total operating income	**27,427**	**124,193**	**151,620**	**109,903**

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 2006-07		Outturn 2006-07
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Operating income and receipts – excess A-in-A	-	-	3,683	*5,416*
Other operating income and receipts not classified as A-in-A	70,548	-	120,510	*85,198*
Sub total	70,548	-	124,193	*90,614*
Non-operating income and receipts – excess A-in-A	-	-	3,187	*3,187*
Other non-operating income and receipts not classified as A-in-A	1,189	*1,189*	-	-
Other amounts collectable on behalf of the Consolidated Fund	1,341	-	-	-
Total income payable to the Consolidated Fund	**73,078**	***1,189***	**127,380**	***93,801***

The forecast for Consolidated Fund receipts in the Spring Supplementary Estimate omitted the Bank of England dividend of £47.0m in relation to 2005-06 which had been received at the time. The forecast should therefore have been £48.2m of receipts. Actual receipts include the enhanced dividend from the Bank of England arising from the settlement of the BCCI case (see Chapter 7, paragraph 7.8), and £36.3m of Pool Re insurance premiums.

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

	2006-07 £000	2005-06 £000
OGC:		
Repayments of loan principal	3,179	999
Proceeds on disposal of fixed assets	8	12
Group Total	**3,187**	**1,011**

10. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

		2006-07	2005-06 (restated)
	Estimate £000	Outturn £000	Outturn £000
Spending Body			
Core Treasury	133,952	128,132	157,813
OGC	46,699	44,848	53,254
DMO	9,903	7,444	7,532
Parliamentary Bodies	3,060	3,060	3,095
Statistics Commission	1,350	1,350	1,342
Net Operating Cost	**194,964**	**184,834**	**223,036**

11. TANGIBLE FIXED ASSETS

11.1 Summary

	Land & Buildings £000	Leasehold Improvement £000	Plant & Machinery £000	Furniture & Equipment £000	IT Equipment £000	Antiques £000	Total £000
Cost/valuation							
At 1 April 2006	108,251	891	1,014	1,756	10,280	1,649	123,841
Additions	186	16	268	4	494	-	968
Impairments	-	-	-	-	(1,718)	-	(1,718)
Disposals	-	-	(19)	(74)	-	-	(93)
At 31 March 2007	**108,437**	**907**	**1,263**	**1,686**	**9,056**	**1,649**	**122,998**
Accumulated depreciation							
At 1 April 2006	3,491	423	243	452	6,226	-	10,835
Charge in year	2,925	91	131	259	1,375	-	4,781
Impairments	-	-	-	-	(479)	-	(479)
Released on disposal	-	-	(12)	-	-	-	(12)
At 31 March 2007	**6,416**	**514**	**362**	**711**	**7,122**	**-**	**15,125**
Net book value 1 April 2006	104,760	468	771	1,304	4,054	1,649	113,006
Net book value 31 March 2007	**102,021**	**393**	**901**	**975**	**1,934**	**1,649**	**107,873**

Included in tangible fixed asset additions is £287k (2005-06: £1,088k) of capital expenditure accruals.

The net book value of tangible fixed assets comprises:

	Core Treasury £000	OGC £000	DMO £000	Group £000
1 April 2006	101,231	11,038	737	113,006
31 March 2007	**97,737**	**9,561**	**575**	**107,873**

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 valued on the basis of existing use, as at 31 March 2006 by the Valuation Office Agency at a value of £95.87m, of which £71.90m was considered attributable to the building and £23.97m to the land. The building was subject to a depreciation charge of £1.452m during the year.

11.2.2 Thistle Street

Thistle Street, Edinburgh was valued in January 2003 on the basis of existing use value by independent surveyors, Gerald Eve, a member of RICS, in accordance with the RICS Appraisal and Valuation Manual.

Title to the freehold land and buildings used by the Department is held by the Department for Communities and Local Government.

11.3 Change in Estimation Technique for Valuation of Tangible and Intangible Fixed Assets

As described in accounting policy note 1.3, the Treasury has adopted the provisions of the 2007-08 FReM in relation to the valuation of tangible and intangible fixed assets in its 2006-07 Resource Accounts. This is a change in estimation technique. The effects of the change on the Resource Accounts for 2006-07, compared to the previous technique of annual revaluation using indices, are to reduce the net book value of the 1 Horse Guards Road building at 31 March 2007 by £2.35m; to reduce the net book value of other tangible fixed assets by £0.44m; to increase the net book value of intangible fixed assets by £0.15m; to increase net operating costs by £2.02m; and to reduce other recognised gains and losses by £0.63m.

12. INTANGIBLE FIXED ASSETS – Software Licences

	2006-07 £000
Cost/valuation	
At 1 April 2006	8,325
Additions	1,415
Impairments	(262)
Disposals	(6)
At 31 March 2007	**9,472**
Accumulated depreciation	
At 1 April 2006	5,243
Charge in year	1,771
Impairments	(114)
Disposals	(5)
At 31 March 2007	**6,895**
Net book value 1 April 2006	3,082
Net book value 31 March 2007	**2,577**

Included in intangible fixed asset additions is £109k (2005-06: £221k) of capital expenditure accruals.

The net book value of intangible fixed assets comprises:

	Core Treasury £000	OGC £000	DMO £000	Group £000
1 April 2006	548	1,673	861	3,082
31 March 2007	**245**	**1,599**	**733**	**2,577**

13. INVESTMENTS

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

	At 1 April 2006 £000	Loan Repayments £000	Revaluation Reserve movement £000	At 31 March 2007 £000
Core Treasury				
Bank of England	1,732,000	-	128,000	1,860,000
Royal Mint	5,500	-	-	5,500
Partnerships UK Shares	4,931	-	45	4,976
Partnerships UK Loan Stock	15,594	-	-	15,594
Sub Total	1,758,025	-	128,045	1,886,070
Others				
OGCbuying.solutions Public Dividend Capital	350	-	-	350
OGCbuying.solutions Loan	5,895	(3,179)	-	2,716
Sub Total	6,245	(3,179)	-	3,066
Group total	**1,764,270**	**(3,179)**	**128,045**	**1,889,136**

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 £83,100k (2005-06: £47,032k), including the Treasury's share of this year's BCCI settlement, is payable. The associated cost of capital is £83,980k (2005-06: £83,066k).

Extracts from the accounts of the Banking Department of the Bank of England for the year ended 28 February 2007 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 28 February

	2007 £ million	2006 £ million
Extracts from the profit and loss account		
Profit after provision and before tax	191	99
Corporation tax	(50)	(19)
Profit for the year attributable to shareholder	141	80
Tax relief on payment to HM Treasury	25	14
Profit after tax	166	94
Payment to HM Treasury (see note 9)	(83)	(47)
Profit retained for the year	**83**	**47**
Extracts from the balance sheet		
Assets		
Loans and advances to banks, the money market and customers	31,557	14,512
Financial assets at fair value through profit and loss	3,298	5,663
Available for sale securities	3,755	3,705
Other assets	753	873
Total assets	**39,363**	**24,753**
Liabilities		
Deposits by central banks, other banks and building societies	32,297	14,588
Financial liabilities at fair value through profit and loss	3,328	6,512
Other liabilities	1,878	1,921
Total liabilities	**37,503**	**23,021**
Total equity attributable to shareholder	**1,860**	**1,732**

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 28 February 2007 totalled £38.45 billion (2006: £36.92 billion). The notes are a liability of the Bank, which must be backed by an equivalent value of securities. Total securities held by the Issue Department at 28 February 2007 were £38.45 billion (2006: £36.92 billion), which included the Ways and Means Advance to the National Loans Fund of £13.37 billion (2006: £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 28 February 2007 was £1.653billion (2005-06: £1.698 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. No dividend is payable for 2006-07 (2005-06: nil). The associated cost of capital is £1,582k (2005-06 £1,204k).

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

	2007 £000	2006 £000
Extracts from the profit and loss account		
Turnover	120,865	114,552
Operating profit/(loss)	2,313	(288)
Net interest payable	(1,075)	(1,312)
Profit/(loss) for the year	**1,238**	**(1,600)**
Extracts from the balance sheet		
Fixed assets	36,927	38,648
Current assets	73,029	67,156
Liabilities due within one year	(44,376)	(45,917)
Liabilities due after more than one year	(10,063)	(9,947)
Net assets and shareholders funds	**55,517**	**49,940**

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. HMT retains an equity interest of 44.6% of the shares.

PUK's accounts for the year ended 31 March 2007 had not been published at the time of finalisation of this report, so the Treasury's equity interest has been held at the net asset value of £1.11 per share per PUK's accounts for the year ended 31 March 2006. The associated cost of capital charge is £221k (2005-06: £167k). PUK's accounts will be available in due course from www.partnershipsuk.org.uk/AboutPUK/PUKAnnualReports.asp. PUK's Annual General Meeting, scheduled for 16 July 2007, will decide whether a dividend should be paid for 2006-07. No dividend was declared on the shares in 2005-06.

The Treasury's holding of PUK Loan Stock is shown at nominal value. Interest at 4.8% (net), £749k (2005-06: £749k) is receivable on the loan stock. The associated cost of capital is £749k (2005-06: £749k).

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

	2006 £000
Extracts from the profit and loss account	
Turnover: group and share of joint ventures	17,452
Profit on ordinary activities before taxation	957
Tax on profit of ordinary activities	(199)
Profit/(loss) for the year	**758**
Extracts from the balance sheet	
Fixed assets	17,327
Current assets	32,408
Creditors falling due within one year	(2,913)
Creditors falling due after more than one year	(35,656)
Net assets and shareholders funds	**11,166**

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 £1,323k is payable for the year ended 31 March 2007 (2006 £1,130k). The associated cost of capital is £1,697k (2005-06 £1,621k).

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

	2007 £000	2006 £000
Extracts from the profit and loss account		
Turnover	69,960	70,341
Operating surplus	4,387	4,131
Net interest receivable	318	(118)
Surplus for the year	**4,705**	**4,013**
Dividend to be surrendered to OGC	(1,323)	(1,130)
Retained surplus	**3,382**	**2,883**
Extracts from the balance sheet		
Fixed assets	10,944	11,733
Current assets	24,740	26,438
Liabilities due within one year	(9,682)	(11,841)
Liabilities due after more than one year	(1,537)	(4,716)
Net assets and shareholders funds	**24,465**	**21,614**

The above extracts are taken from a draft version of the accounts, which is subject to audit.

14. SURPLUS FREEHOLD/LONG LEASEHOLD PROPERTY

At 31 March 2006 OGC held one long leasehold property for disposal, which was valued at nil. It was disposed of during 2006-07 for nil consideration.

15. DEBTORS

15.1 Analysis by Type

	2007 Core Treasury £000	2007 Group £000	2006 Core Treasury £000	2006 Group £000
Amounts falling due within one year				
Other taxation and social security	1,422	1,651	1,784	2,650
Trade debtors	1,444	3,553	1,065	2,892
Deposits and advances	311	438	305	338
Other debtors	87	92	113	247
Prepayments and accrued income financed by Supply	3,076	6,393	1,839	3,674
Sub-total: Supply financed balances	**6,340**	**12,127**	**5,106**	**9,801**
Accrued income from the Bank of England due to the Consolidated Fund on receipt	83,100	83,100	47,032	47,032
Other accrued income due to the Consolidated Fund on receipt	373	373	1,088	2,821
	89,813	**95,600**	**53,226**	**59,654**
Amounts falling due after more than one year				
Due to the Consolidated Fund on receipt	6,972	6,972	6,649	6,649
Other debtors (Supply financed)	-	74	-	9
Prefunding for premature retirements (Supply financed)	3	3	3	3
	6,975	**7,049**	**6,652**	**6,661**
Total	**96,788**	**102,649**	**59,878**	**66,315**
Of which				
Due to the Consolidated Fund on receipt	**90,445**	**90,445**	**54,769**	**56,502**

The monies due to the Consolidated Fund on receipt, as shown above, do not include accrued income in respect of scrap metal stock, 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. The first instalment for 2006-07 was £41.5m and was paid by the Bank to the Treasury on 5 April and paid on by the Treasury to the Consolidated Fund on 25 April.

15.2 Intra Government Balances

	Amounts falling due within one year 2007 £000	Amounts falling due within one year 2006 £000	Amounts falling due after more than one year 2007 £000	Amounts falling due after more than one year 2006 £000
Balances with other central government bodies	6,662	6,305	3	3
Balances with local authorities	149	62	-	-
Balances with NHS Trusts	4	20	-	-
Balances with public corporations and trading funds	441	356	-	-
Sub total: intra government balances	**7,256**	**6,743**	**3**	**3**
Balances with bodies external to government	88,344	52,911	7,046	6,658
Total Debtors at 31 March	**95,600**	**59,654**	**7,049**	**6,661**

16. CASH AT BANK AND IN HAND

	2007		2006	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Balance at 1 April	3,720	7,056	20,504	28,802
Net change in cash balances - inflow/(outflow)	588	1,502	(16,783)	(21,745)
Balance at 31 March	**4,308**	**8,558**	**3,721**	**7,057**
The following balances were held at 31 March:				
Office of HM Paymaster General	4,308	8,386	3,721	6,747
Bank of England	-	171	-	309
Cash in hand	-	1	-	1
Balance at 31 March	**4,308**	**8,558**	**3,721**	**7,057**

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

	Note	2007 Group £000	2006 Group £000
Net Cash Requirement		(211,820)	(204,604)
From the Consolidated Fund (Supply) – current year		211,279	203,955
Amounts due to the Consolidated Fund received and not paid	17.1	5,236	3,499
Amounts due to the Consolidated Fund – received in a prior year and paid over		(3,499)	(24,595)
Advance from the Contingencies Fund to be repaid		306	-
Increase/(decrease) in cash	16	**1,502**	**(21,745)**

The advance from the Contingencies Fund was to cover the resource cost of recruiting the Chair and non-executive directors of the Statistics Board. The creation of the Board is subject to the passage of the Statistics and Registration Service Bill 2007. The Contingencies Fund advance was necessary to give authority for the expenditure on a new service prior to the passage of the enabling legislation and approval of the resources via an Estimate.

17. CREDITORS

17.1 Analysis by Type

Amounts falling due within one year		2007		2006
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Trade creditors	3,029	5,915	6,318	6,975
Other creditors	1,992	2,722	1,148	1,194
Other taxation and social security	1,421	2,139	2,167	3,220
Accruals and deferred income	9,968	13,332	12,043	18,641
Capital creditors	204	396	741	1,309
Transfer to provision	-	-	-	268
Bond from sub-tenants	-	-	-	436
Subtotal: Supply financed working capital creditors	**16,614**	**24,504**	**22,417**	**32,043**
PFI contract (note 24.2)	1,613	1,613	1,436	1,436
Advance from the Contingencies Fund (note 16.1)	306	306	-	-
Amounts issued from the Consolidated Fund for Supply but not spent at year end	306	3,017	1,542	3,558
Consolidated Fund extra receipts received	1,726	5,236	129	3,499
Consolidated Fund extra receipts receivable	90,645	90,645	55,335	57,068
Total	**111,210**	**125,321**	**80,859**	**97,604**

The amount due for Consolidated Fund extra receipts receivable includes £6,972k (2005-06: £6,649k) in relation to amounts not expected to be received for more than one year.

Amounts falling due after more than one year		2007		2006
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
PFI contract (note 24.2)	152,443	152,443	150,468	150,468
Bond from sub-tenants	-	167	-	-
Total	**152,443**	**152,610**	**150,468**	**150,468**

17.2 Intra Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2007 £000	**2006** £000	**2007** £000	**2006** £000
Balances with other central government bodies	104,892	71,355	-	-
Balances with local authorities	-	324	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	535	2,110	-	-
Sub total: intra government balances	**105,427**	**73,789**	-	-
Balances with bodies external to government	19,894	23,815	152,610	150,468
Total Creditors at 31 March	**125,321**	**97,604**	**152,610**	**150,468**

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

	Note	2007 Group £000	2006 Group £000	Movement Group £000
Supply financed debtors due within one year	15	12,127	9,801	2,326
Supply financed debtors due after one year	15	77	12	65
Supply financed creditors due within one year	17	24,504	32,043	7,539
Supply financed creditors due after one year	17	167	-	(167)
Supply financed working capital movement for the Net Cash Requirement (note 5)				**9,763**
Stock movement		200	565	(365)
Debtors for income that will be surrenderable to the Consolidated Fund	15	90,445	56,502	33,943
Adjust for capital expenditure accruals	17	396	1,309	913
Working capital movement for the Cash Flow Statement				**44,254**

The stock movement of £365k (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 2006	-	50	3,127	3,177
Provision utilised in year	-	(50)	(1,281)	(1,331)
Transfer from/(to) operating cost statement	-	-	1,008	1,008
Unwinding of discount	-	-	38	38
At 31 March 2007	**-**	**-**	**2,892**	**2,892**
Others				
Balance at 1 April 2006	7,373	1,050	2,475	10,898
Provision utilised in year	(442)	-	(800)	(1,242)
Transfer from operating cost statement	(106)	(125)	2,701	2,470
Unwinding of discount	490	-	38	528
At 31 March 2007	**7,315**	**925**	**4,414**	**12,654**
Group				
At 1 April 2006	**7,373**	**1,100**	**5,602**	**14,075**
At 31 March 2007	**7,315**	**925**	**7,306**	**15,546**

19.1 Maturity Analysis of Provisions

Amounts estimated to fall due:	Core Treasury £000	Group £000
Within one year	1,225	5,752
Between one and two years	590	3,015
Between two and five years	794	4,368
After five years	283	2,411
	2,892	**15,546**

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% (2005-06 2.2%).

19.3 Other Provisions

This includes specific dilapidations, legal costs 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

	2006-07		2005-06 (restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
General Fund at 1 April	**1,244,340**	**1,243,907**	**1,249,399**	**1,254,102**
Prior Period Adjustment (note 2)	-	-	(513)	(513)
Adjusted opening balance	**1,244,340**	**1,243,907**	**1,248,886**	**1,253,589**
Net Parliamentary Funding				
Drawn down	167,459	211,279	155,455	203,955
Deemed	1,543	3,558	(3,709)	4,207
Consolidated Fund creditor for cash unspent	(306)	(3,017)	(1,543)	(3,558)
Sub-total: Net Cash Requirement		**211,820**		**204,604**
Contingencies Fund advance	306	306	-	-
Net Transfer from Operating Statement				
Net operating cost for the year	(132,543)	(184,834)	(162,250)	(223,036)
Income not appropriated in aid payable to the Consolidated Fund	(121,870)	(124,193)	(78,654)	(83,095)
Non–operating income not appropriated in aid payable to the Consolidated Fund	-	(3,187)	-	(14,011)
Amounts due to the Contingencies Fund	(306)	(306)	-	-
Non-cash charges				
Notional audit fee	115	137	72	134
Cost of capital	83,865	85,555	82,587	84,427
Expenditure outside Supply process				
Banking and gilts registration services	12,025	12,025	10,415	10,415
Transfer from Revaluation Reserve (note 21)	-	-	(2)	10,753
Intra departmental consolidation adjustments	(8,994)	-	(6,917)	127
Balance at 31 March	**1,245,634**	**1,241,230**	**1,244,340**	**1,243,907**

21. REVALUATION RESERVE

	2006-07		2005-06 (restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Balance at 1 April	**445,124**	**448,241**	**343,829**	**356,551**
Arising on revaluation during the year (net)				
Tangible assets and investments	128,045	128,045	101,293	102,363
Leasehold adjustment	-	-	-	80
Transfer from/(to) General Fund in respect of realised element of revaluation reserve				
Tangible assets and investments	-	-	2	2
Surplus freehold property	-	-	-	(10,755)
Balance at 31 March	**573,169**	**576,286**	**445,124**	**448,241**

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	
	2006-07	**2005-06 (restated)**	**2007**	**2006 (restated)**
	£000	£000	£000	£000
I Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability;	108,195	91,136	927,947	863,665
II Increase the productivity of the economy and expand economic and employment opportunities for all;	42	77	(9,500)	(9,465)
III Promote efficient, stable and fair financial markets for their users and the economy;	42,960	45,840	923,151	858,822
IV Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest;	-	-	(8,728)	(9,149)
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;	42	4,143	(9,191)	(10,963)
VI Improve the quality and cost-effectiveness of public services;	2,019	12,308	4,891	8,696
VII Achieve world-class standards of financial management in government;	-	-	(8,272)	(6,849)
VIII Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;	-	-	(1,545)	(2,682)
Other resources required not falling under HM Treasury's eight main objectives.	3,135	3,131	(1,237)	73
Operating costs/net assets	**156,393**	**156,635**	**1,817,516**	**1,692,148**

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); non-Voted expenditure on banking and gilts registration services (Objective I); and grants to the Parliamentary bodies (other).

In 2005-06, there was also programme spending of £4m on the UK's joint presidencies of the EU and the G8 (Objective V), £4m on the promotion of stakeholder savings and investment products (Objective III), and the OGC's Efficiency Challenge Fund allocation (£8m to fund change agents working with other departments; Objective VI).

22.2 Capital Employed

Where assets or liabilities relate to specific Objectives they are attributed directly. For example, the £1.86 billion investment in the Bank of England and the £83.1m dividend receivable from the Bank are attributed to Objectives I and III, and the £20.5m investment in Partnerships UK is attributed to Objective VI. The Department's administrative net liabilities are attributed to objectives in proportion to net administrative expenditure on those objectives.

23. CAPITAL COMMITMENTS

	2006-07 Core Treasury £000	2006-07 Group £000	2005-06 Core Treasury £000	2005-06 Group £000
Contracted capital commitments for which no provision has been made	-	-	1,608	1,863
Approved but not contracted capital commitments	5,022	5,097	200	1,420

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.

	2006-07 Core Treasury £000	2006-07 Group £000	2005-06 Core Treasury £000	2005-06 Group £000
Land and buildings:				
Expiry within one year	-	-	-	-
Expiry after 1 year but not more than 5 years	-	962	-	962
Expiry thereafter	-	4,080	-	4,080
	-	**5,042**	**-**	**5,042**
Other:				
Expiry within one year	507	507	290	296
Expiry after 1 year but not more than 5 years	-	38	-	49
Expiry thereafter	-	-	-	-
	507	**545**	**290**	**345**

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).

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.

The finance lease obligation under the on-balance sheet PFI contract comprises:	Core Treasury £000	2007 Group £000	Core Treasury £000	2006 Group £000
Rentals due within one year	13,204	13,204	12,599	12,599
Rentals due between two to five years	56,620	56,620	54,027	54,027
Rentals due thereafter	548,498	548,498	552,496	552,496
	618,322	**618,322**	**619,122**	**619,122**
Less interest element	(334,408)	(334,408)	(339,190)	(339,190)
Less uplift for inflation on future unitary payments	(129,858)	(129,858)	(128,028)	(128,028)
	154,056	**154,056**	**151,904**	**151,904**

Charge to the Operating Cost Statement and Future Service Charge Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on-balance sheet PFI transactions was £3,927k (2005–06: £3,992k).

At 31 March 2007 the Department was committed to pay service charges during the next year:

	Core Treasury £000	2007 Group £000	Core Treasury £000	2006 Group £000
Expiry within thirty to thirty five years	**4,276**	**4,276**	**4,080**	**4,080**

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. Monthly payments are made for coins issued. The manufacturing price is agreed in a Service Level Agreement, and is subject to an annual efficiency adjustment equivalent to the annual change in RPI minus 2%. The price and the volume of coins issued are expressed in terms of factored units, which attribute a weighting to each denomination of coin. For the year 2006-07 the Treasury purchased 1,587 million coins, translating to manufacturing charges for 1,972 million factored units at a cost of £18,109k including VAT. The Mint recharges the Treasury for the metal prices it incurs, which are variable in line with market prices.

	Factored Units (millions)	Manufacturing price per factor excluding VAT (£)	Cost including VAT (£000)
Manufacturing cost commitment based on the purchase of 1,972 million factored units	0 to 1,817	8,013	17,107
	1,818 to 2,336	5,472	1,002
	Over 2,336	4,691	-
			18,109

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 below under the contingent assets heading.

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;
- 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 2007 £000	Estimated fair value 31 March 2007 £000
Public Dividend Capital in Royal Mint (note 13)	5,500	55,517
Partnerships UK Loan Stock (note 13)	15,594	10,916 to 16,764
OGCbuying.solutions Loan (note 13)	2,716	2,732 to 2,760
Public Dividend Capital in OGCbuying.solutions (note 13)	350	24,465

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 investments in Partnerships UK Loan Stock and the loan to OGCbuying.solutions are 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 £16.764m, while a yield of 8.0% implies a fair value of £10.916m. The OGCbuying.solutions loan is being repaid in instalments over the period to June 2009 and carries interest at 6.5% on the reducing balance. Its fair value is therefore estimated in the range £2,732k to £2,760k, based on yields of between 6.25% and 5.25% respectively, and is not materially different from the carrying value.

27. CONTINGENT ASSETS & LIABILITIES

27.1 Contingent Assets & Liabilities Disclosed Under FRS 12

27.1.1 Contingent Assets

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 taking steps to enforce the judgement. The Officeholders are not seeking recovery from Director B as he is believed to have no quantifiable assets. Since there is no certainty of recovery from Director A nothing has been recognised in the financial statements. Recognising that full recovery may not be successful and that costs will arise, it is not possible to quantify the value of the contingent asset.

The results of PUK for the year will include 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.

27.1.2 Contingent Liabilities

The Treasury is being sued for alleged failure to regulate the Lloyd's insurance market in proper accordance with EC law. The High Court has given judgment on the preliminary issues for the Treasury and an order for Treasury's costs to be paid by the claimants. The claimants are appealing the judgment. If the judgment stands, the matter is resolved in Treasury's favour. The appeal hearing has been listed for 4 days commencing 10 October 2007.

The Association of Private Client Investment Managers and Stockbrokers (APCIMS) is considering legally challenging the Treasury in respect of the notification of additional rules to the Market and Financial Instruments Directive (MiFID). Provisional notifications have been made by the Treasury, as required, but will be subject to revision when the Financial Services Authority (FSA) finalises the related rules, which is expected to occur in June or July 2007. The Treasury may be liable for legal costs and there is a small possibility of damages, should judgment be made in APCIMS' favour.

The contingent liabilities are unquantifiable.

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

	2007 £000	2006 £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
Treasury Minute of 24 March 2005: Bequest to the Nation: Harold William Frost Deceased	715	715
Indemnity on the bequest to the nation by Harold William Frost against further claims made against the Estate of Harold William Frost or against Mr Robin Brammall, in his capacity as Executor and Trustee of the Estate, including any costs and expenses, legal or otherwise, incurred in disputing such claims, limited to the value of the residue of the Estate.		

28. LOSSES AND SPECIAL PAYMENTS

The Group's administration costs include £190k arising from 78 claims waived or abandoned.

29. 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.

29.1 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) and Royal Mint (see Note 13.2) fall outside the resource accounting boundary, their share capital is wholly owned by the Treasury. Payments to these bodies for services provided and the dividend payments received are material and in the operating cost statement.

Nicholas Macpherson, Permanent Secretary of the Treasury is also a non-executive member of HM Revenue & Customs Board.

In addition to his duties as a non-executive director, Sir Peter Gershon has been undertaking a review of certain aspects of the Government's Efficiency Programme.

Sir David Varney is a non-executive member of the Treasury Board and was also the Chairman of HM Revenue & Customs (a key stakeholder of the Treasury) until August 2006, when he stepped down and became the Chancellor's senior advisor on Transformational Government until January 2007. In March, the Chancellor announced that he would lead a review of tax policy in Northern Ireland, on which he is due to report in the Autumn.

29.2 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.

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

29.3 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.

30. THIRD PARTY ASSETS

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

31. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2006-07 were as follows:

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

32. POST BALANCE SHEET EVENTS

There are no reportable post balance sheet events. The financial statements were authorised for issue on 4 June 2007.

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