HM Treasury

HM Treasury Annual Report and Accounts 2008-9 Including the spring Departmental Report and Consolidated Departmental Resource Accounts

HC 611 (2008/9)

ISBN 9780102961683

CORRECTION

Treasury staff diversity data

The table below replaces table 4.C on page 90 of the Annual Report and Accounts 2008-09 (HC 611).

Table 4.C: Treasury staff diversity at 31 March 2009

Range	Women (per cent)	People from Minority ethnic background (percent)	People with disabilities (per cent)
B	73.0	32.0	6.6
C	58.5	26.7	10.8
D	41.6	16.9	2.2
E	36.7	6.7	4.3
F	45.5	3.4	4.5
G	23.5	5.9	0.0
H	0.0	0.0	0.0
All SCS (H, G & F)	39.6	3.6	3.6
Top Management (H & G)	17.4	4.3	0.0
Overall	**45.6**	**15.5**	**4.7**

November 2009
London: The Stationery Office

HM TREASURY

Annual Report and Accounts
2008-09

HC 611 **July** 2009

HM Treasury
Annual Report and Accounts
2008-09

Including the spring Departmental Report and
Consolidated Departmental Resource Accounts

For the year ended 31 March 2009

Departmental Report presented to the House of Commons
by Command of Her Majesty

Resource Accounts presented to the House of Commons pursuant
to chapter 20, section 6(4) of the Government Resources and
Accounts Act 2000

Resource Accounts and Departmental Report presented to the
House of Lords by Command of Her Majesty

Ordered by the House of Commons to be printed
20 July 2009

HC 611 London: The Stationery Office £34.55

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ISBN 978-0-10-296168-3
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Foreword

By the Chancellor of the Exchequer, The Rt Hon Alistair Darling MP

The world economy has faced exceptional pressures through 2007 and 2008, with the financial crisis of late 2008 resulting in the sharpest and most widespread global downturn in well over 60 years. Working through these issues, and the continuing uncertainty in the global economy, has reinforced the importance of the Government's economic objective – to build a strong economy and a fair society, where there is opportunity and security for all.

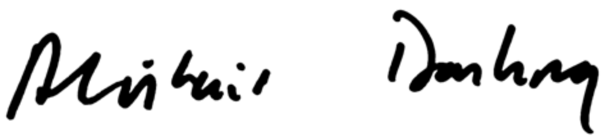
Over the past year, the Government has taken action on both a domestic and global stage in order to stabilise the banking system and support the economy. We stabilised the financial system, making the banks stronger and helping them clean-up their balance sheets, and our approach was soon followed by many other countries.

At the London summit, held as part of the UK's presidency of the G20, there was an historic agreement to act together to deal with this global crisis, support the global economy, and enhance the regulatory system.

Our action will lessen the impact of this downturn, indeed the IMF has praised the wide-ranging action taken to tackle the downturn. This year's Budget forecast that the UK economy will begin to show growth towards the end of 2009, because of the actions we have taken and the strength and resilience of the British economy in the medium-term.

Over the past year, the Treasury has remained committed to ensuring strong and stable public finances. The UK entered the current crisis with national debt low by international standards. But as we, and other countries, respond to this downturn, deficits and debt have increased everywhere. We need to continue to act to ensure sustainable public finances, reducing borrowing and debt – while investing in public services and infrastructure. Here, the Government has brought forward investment in areas such as housing, and has made a commitment to maintain the public spending plans agreed at the time of the 2007 Comprehensive Spending Review. We also plan to cut our deficit in half over four years. Together, this action supports the economy in the short term while also ensuring we can live within our means in the medium term.

This has been a difficult year for the Treasury, and I am grateful to the staff of the Treasury Group for their achievements. I would like to thank all our officials for their continued hard work and commitment.



Alistair Darling

Section 1:

Annual Departmental Report

Introduction

This introduction explains the structure of this report, and introduces and briefly explains the Treasury Group, its objectives, and its ministerial team.

About this report

This Annual Report and Accounts 2008-09 describes the Treasury Group's performance and achievements against its objectives, and provides a comprehensive account of the Treasury Group's use of resources. Although the period covered by this report is for the financial year ending 31 March 2009 an update in respect of more recent data is provided where possible.

Section 1: Annual report

Executive summary provides an overview of the year, and a summary of performance against Departmental Strategic Objectives (DSOs) and Public Service Agreements (PSAs).

Chapter 1: Maintain sound public finances describes the progress and performance of the Group on its first DSO, with more detailed information and performance ratings for each underlying outcome.

Chapter 2: Economic growth, well-being and prosperity for all describes the progress and performance of the Group on its second DSO, with more detailed information and performance ratings for each underlying outcome.

Chapter 3: Ending child poverty describes the progress and performance of the Group on this PSA, together with information on the governance arrangements in place across Whitehall.

Chapter 4: An effective and efficient department describes the progress made and action taken on the Departmental Corporate Objective (DCO), with more detailed information for each underlying outcome.

Chapter 5: Financial data and projections provides an overview of how the Group has managed its resources during 2008-09, and provides commentary on comparative financial data and projections. It also details plans and progress made on value for money and efficiency for the Group.

Annex A: Legacy targets provides an update on targets from the 2004 Spending Review (SR 2004) that have not yet been given a final assessment or have not been subsumed into the CSR 2007 DSOs or PSAs.

Annex B: Corporate governance provides required material outlining the corporate governance arrangements for the Treasury Group.

Annex C: Sustainable development provides detailed data and commentary on the sustainability performance of the Treasury Group and its estate.

Annex D: Recommendations by the Committee of Public Accounts provides information on action taken by the Treasury Group in response to the recommendations of this Committee.

Annex E: Parliamentary Ombudsman provides required information on any complaints made to the Parliamentary Ombudsman in 2008-09.

Section 2: Resource Accounts

- **Statement of Accounting Officer responsibilities** sets-out the responsibilities of the Permanent Secretary and Accounting Officer with regard to the resource accounts.
- **Statement on internal control** provides background on the Group's systems and processes for ensuring internal control, together with a judgement on their effectiveness in 2008-09.
- **Ministers' and senior managers' remuneration report** provides required information and data on the remuneration levels and arrangements for ministers and senior managers.
- **Certificate and report of Comptroller and Auditor General** provides the independent audit opinion on these resource accounts.
- **Resource Accounts** provides the core financial tables and data, including the Statement of Parliamentary Supply, Operating Cost Statement, Balance Sheet, and Consolidated Cash Flow Statement.
- **Notes to the departmental resource accounts** provides detailed notes on the resource accounts.

About Treasury Ministers

The **Chancellor of the Exchequer**, Rt Hon Alistair Darling MP, has overall responsibility for the Treasury. He is supported by:

- the **Chief Secretary to the Treasury**, Rt Hon Liam Byrne MP;
- the **Financial Secretary to the Treasury**, Rt Hon Stephen Timms MP;
- the **Exchequer Secretary to the Treasury**, Sarah McCarthy-Fry MP;
- the **Economic Secretary**, Ian Pearson MP;
- the **Financial Services Secretary**, Lord Myners; and
- the **Minister of State with responsibility for revenue protection at the border**, Phil Woolas MP.

A diagram of ministerial responsibilities is included in the following pages.

About Treasury Group

The Treasury Group consists of HM Treasury (also referred to as core Treasury), the UK Debt Management Office (DMO) and the Office of Government Commerce (OGC).

- **HM Treasury** is the United Kingdom's economics and finance ministry, and it is responsible for formulating and implementing the UK Government's financial and economic policy.
- The **DMO** is the executive agency of the Treasury specialising in the provision of policy advice on and the delivery of the government's financing needs. It acts as a key gateway for government to the wholesale financial markets and performs these functions primarily to support the Treasury's objective of maintaining sound public finances.
- The **OGC** is an office of the Treasury tasked with delivering transformation of Government procurement, and with driving up standards and procurement capability across central government. Buying Solutions is OGC's Executive agency and Trading Fund.

A diagram of the structure of the Treasury Group is included in the following pages.

This report also provides a short summary of the relationship the Treasury Group has with its Arms Length Bodies, though such organisations do not form part of the Group. Detailed information about these organisations may be found within the reports published by each body. Similarly, this report does not provide reporting on the activities of the other Chancellor's departments, which report separately via their own annual reports to Parliament.

Treasury Group objectives

The Treasury Group has two Departmental Strategic Objectives (DSOs) that set out its policy objectives, and has established a Departmental Corporate Objective (DCO) that sets out its corporate objectives:

- To maintain sound public finances (DSO 1);
- To ensure sustainable economic growth, well being and prosperity for all (DSO 2); and
- To enable HM Treasury to deliver effectively and efficiently, and remain a strong, respected, and professional economics and finance ministry (DCO).

In addition, HM Treasury also leads on the Public Service Agreement (PSA9) on ending child poverty.

A diagram illustrating these objectives, and how they relate to cross-government public service agreements, is included in the following pages.

Executive summary

Overview of 2008-09

The world economy faced exceptional challenges through 2008 and 2009, with the financial crisis of late 2008 precipitating a steep and synchronised global downturn. Initially, credit conditions tightened across advanced economies. Then a rise in global commodity prices squeezed real incomes. Together these factors pushed many advanced economies into recession. Finally, the intensification of the credit shock into a global financial crisis delivered a severe blow to an already weakened world economy, resulting in a severe global downturn.

With a sharp recession taking place in the world's economies, world GDP is now forecast to fall by 1¼ per cent in 2009, marking the first year of contraction in the post-war period. Advanced economies are predicted to contract most sharply, with G7 GDP forecast to fall by 4 per cent. The UK, like other advanced economies, has seen a large fall in output, with GDP down 2.4 per cent in the first quarter of 2009 and industrial production down 5.3 per cent. In 2009, the Budget forecast is that the UK economy will contract by 3½ per cent, before recovering to grow by 1¼ per cent in 2010, picking up to 3½ per cent in 2011.

As the global downturn has consequences for every country, co-ordinated global solutions have been required. The UK Government, as Chair of the G20 in 2009, forged agreement between G20 leaders on a comprehensive *Global Plan for Recovery and Reform* at the London Summit in April 2009.

Reinforcing the international response, the Treasury is helping to deliver a coherent and comprehensive package of domestic support to stabilise the financial system, provide support to the economy, and set a clear plan for ensuring sound public finances over the medium term. The Treasury has also made reforms to the tax and welfare regimes to support the public through the downturn, and to ensure the economy is in a stronger position as prospects improve.

As the macroeconomic policy response takes hold and credit conditions start to ease, the world and UK economies are forecast to begin to recover towards the end of 2009, with growth picking up through 2010 and 2011.

The Treasury does not underestimate the scale of the remaining challenges, both in ensuring successful implementation of the actions undertaken to date, and in responding flexibly to ongoing economic circumstances. It has taken steps during 2008-09 to ensure it continues to have capability and capacity in place to continue to rise to the challenge and deliver effectively.

Maintaining sound public finances

Sound public finances are essential for **macroeconomic stability**, which gives businesses and individuals the confidence to plan and invest for the long term. They also help to deliver low long-term interest rates, supporting businesses' access to new financing and resources for growth.

Global economic developments (outlined in more detail in chapter two) are having a profound effect on the **fiscal positions** of most countries, with debt likely to rise significantly in all advanced economies. During a period when demand is very weak and the operation of financial markets and monetary policy are impaired, it is appropriate to allow borrowing to rise to support the economy.

Setting a credible plan to reduce borrowing over the medium term provides space for the Government to act flexibly in the short term to support the economy, while also promoting confidence in future growth and the private sector investment that will drive economic recovery.

The Government's objectives for fiscal policy in the face of global shocks remain unchanged:

- 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.

Consistent with these objectives, the Government is taking action to support economic recovery while protecting fiscal sustainability in the following way:

- To support recovery, it is delivering fiscal support worth 4 per cent of GDP in 2009-10, from the measures announced in Budget 2009, the 2008 Pre-Budget Report and the operation of the automatic stabilisers; and

- To ensure sound public finances and protect fiscal sustainability, the Government and has set out plans to deliver a sustained fiscal consolidation once the economy emerges from the downturn, including through a combination of adjustments to tax and spending.

This approach is supported by widespread international agreement on the need to provide fiscal support in the short term, while ensuring fiscal sustainability over the medium term. The International Monetary Fund (IMF) recently noted "Macroeconomic policy stimulus will be critical to support demand while financial issues are addressed and to avoid a deep and prolonged recession… fiscal policy must play a central role in supporting demand, while remaining consistent with medium-term sustainability".

Chapter 1 provides more information on progress and performance on this DSO.

Ensuring high and sustainable levels of economic growth, well-being and prosperity for all

The exceptional economic circumstances of the past year have not been limited to one economy, or indeed had an isolated impact, and have required a global response. The UK has taken the lead, in both the G20 and other fora, in forging international agreements and implementing a domestic package that has been seen as a benchmark throughout the global financial system.

The Government, supported by the work of the Treasury and others including the Bank of England and the Financial Services Authority, have undertaken a series of interventions to address problems in the financial system. The Treasury has worked quickly and efficiently to support and contribute to the design of the interventions to tackle problems at individual institutions; address system-wide instability; and get credit flowing through the economy once more. These interventions share a common purpose of protecting the customers of financial institutions – people and businesses – from the consequences of financial instability and restricted access to credit.

The action taken since October 2008 has been successful in preventing the collapse of the financial system and ensuring that no retail depositors in UK banks or building societies lost money. These interventions have supported the wider economy by protecting it from the worst costs of financial instability or bank failures, by providing the resources and certainty necessary for credit growth, and agreeing commitments that will get credit flowing to creditworthy borrowers, and so support economic recovery.

In addition to stabilising the financial system, macroeconomic support to the economy is being provided, by both ensuring continued price stability through monetary policy, and by setting fiscal policy to support economic growth while ensuring sound public finances.

Price stability is a precondition for high and sustainable levels of economic growth and employment. Monetary policy remains the key tool for the management of demand in the economy and therefore inflation. Since the onset of the financial crisis, as economies have slowed sharply and commodity prices fallen, central banks around the world have cut policy rates to historically low levels to tackle the emerging risks of deflation. On 19 January 2009, with Bank Rate at a very low level, the Government established the Asset Purchase Facility (APF) as a further step to help increase the availability of corporate credit and to provide a framework for the Monetary Policy Committee (MPC) to use asset purchases for monetary policy purposes – a process often termed quantitative easing.

In the near term, the negative effects of the steep downturn in global and domestic demand will dominate prospects for growth, with Budget prospects for 2009 revised down significantly since the

2008 Pre-Budget Report. The Budget 2009 economic forecast is for a contraction of 3½ per cent. GDP is forecast to contract sharply in the first half of 2009, to stabilise in the second half of the year, and to pick up progressively through 2010 and 2011 as credit conditions normalise and the effects of the macroeconomic support take hold.

CPI inflation is forecast to continue to ease through 2009, moving well below target by the end of the year, and to remain below target during 2010, though downward pressure on inflation is countered by monetary policy support taking hold. CPI inflation is forecast to return close to target during 2011 as the lagged effects of monetary policy easing are assumed to have their maximum impact.

In addition to the fiscal stimulus, which will help support employment across the economy, the Treasury is also responsible for developing policies to both improve incentives and means to work and ensure support for the very young and the elderly. In PBR 2008 and Budget 2009, the Government took a number of steps to ensure that the tax system provided short-term support to businesses and households, while also contributing to fiscal consolidation and fairness.

As the UK economy begins to recover and rebalance towards saving, investment and exports, private sector investment is likely to account for a larger proportion of economic growth. The Treasury therefore continues to build on the various reforms and investment programmes designed to enhance productivity growth in the long term.

Treasury's work continues on driving forward high quality public services, which play central role in the UK's long-term growth and competitiveness and will be crucial to a successful recovery. By releasing additional efficiency savings through the Operational Efficiency Programme (£9 billion of additional savings between 2011-12 and 2013-14), the Government will be able to continue investment in and improvement of public services.

The Treasury has also focused significant attention during 2008-09 on climate change, and the Pre-Budget Report 2008 introduced a green stimulus, ensuring part of the fiscal stimulus supports low carbon growth and jobs by accelerating £535 million of capital spending on energy efficiency, rail transport, and adaptation measures.

Chapter 2 provides more information on progress and performance on this DSO.

Ending Child Poverty

The Treasury is lead department for delivering on the cross government Public Service Agreement (PSA) on child poverty: to halve the number of children in poverty by 2010-11 and its eradication by 2020.

Budget 2009 announced further increases to the child element of the Child Tax Credit of £20 a year above indexation from April 2010, providing valuable support to families with children.

Eradication of child poverty by 2020 requires sustainable progress in improving children's life chances for the longer term. The Government will shortly set out its aims in the Child Poverty Bill, establishing targets, creating an accountability framework and introducing an expert commission to advise on child poverty.

Progress towards this goal is measured by the number of children in low- income households and those in material deprivation. Progress in these areas is slow. However, although the current economic conditions make progress more difficult, the Government remains committed to tackling Child Poverty.

Chapter 3 provides more information on progress and performance on this PSA.

Delivering effectively and efficiently

To enable the Treasury Group to deliver on its commitments and also to adapt quickly to new challenges it must have in place a strong corporate strategy to facilitate an effective and efficient working environment in order to support the business. The Treasury continues to enhance its corporate strategy and support systems to maintain the capacity and capability to deliver its objectives.

Responding to the financial crisis and recession has created particular challenges for the Treasury Group, ranging from responding quickly with policies to stabilise the financial system, ensuring it is able to deliver these interventions effectively, taking a lead role in supporting an internationally co-ordinated response through the G20 process, leading the co-ordination of the fiscal stimulus, to a doubling of gilt issuance and cash management activities since this time last year. Looking ahead, the issues presented by the recession and the consolidation of the public finances add further complexities to the Treasury's agenda.

The Treasury does not underestimate the scale of these challenges. It has taken steps to ensure it has the capacity and capability in place to continue to rise to them.

In particular, the delivery of the department's new responsibilities – ensuring that financial stability is maintained and taxpayer value protected throughout this period of intervention in the financial markets – remains one of the Treasury's central priorities. This requires new organisational structures and expertise and, as a result, during 2008-09 the Treasury has acted decisively to ensure it remains well placed to deliver as a department.

To support the delivery of the Treasury's corporate strategy, the department has established a Departmental Corporate Objective (DCO) to sit alongside its two Departmental Strategic Objectives, to ensure the department remains an effective and efficient economics and finance ministry.

Chapter 4 provides more detail on progress and actions in support of the DCO.

Performance against objectives in 2008-09

The tables below provide a summary of progress on the Treasury Group's DSOs. The Treasury rates its performance against DSOs and PSAs in accordance with the standard reporting terminology under the CSR2007 performance framework. The chapters that follow give a more detailed commentary on that performance.

Standard reporting terminology for interim assessments

Rating	Definition
Strong Progress	More than 50 per cent of indicators have improved. (Note: This may only be used where more than 50 percent of "all" indicators have seen improvement; not just 50 per cent of those that are assessed.)
Some progress	50 per cent or less indicators have improved.
Met – Ongoing*	Target is still live and measured on a continuous basis.
No progress	No indicators have improved.
Not yet assessed	50 per cent or more of the indicators are yet to have even first time data produced on progress.

DSO 1: Maintaining Sound Public Finances

DSO Outcome	Performance Indicator(s)	Assessment
a. Meeting the fiscal rules	To set policies to improve the cyclically-adjusted current budget in each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.	Not yet assessed *(50 per cent of indicators or more without first time data)*
b. Ensuring that the tax yield is sustainable and risks managed	Tax yield over the economic cycle.	Not yet assessed *(50 per cent of indicators or more without first time data)*
c. Managing public spending	Differences between Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) and actual outturns as at the End of Year Fiscal Report; and Differences between Public Sector Net Investment (PSNI) at Budget and actual outturns as at the End of Year Fiscal Report.	No Progress *(No indicators have improved)*
d(i). Professionalising and modernising the **finance** and procurement functions in government	Performance at departmental level in timeliness and quality of in–year and external reporting.	Strong Progress *(More than 50 per cent of indicators showing improvement)*
d(ii). Professionalising and modernising the finance and **procurement** functions in government	Efficiency: Savings from take up of collaborative opportunities and other procurement activity; and Effectiveness: improvements in the delivery performance of Government's procurement capability and capacity.	Strong Progress *(More than 50 per cent of indicators showing improvement)*
e. Managing government cash, debt and reserves efficiently and effectively	All operational activities carried out without major error; and appropriate limits and monitoring systems to control financial risks are in place.	Strong Progress *(More than 50 per cent of indicators showing improvement)*

Overall Performance Rating

The Treasury rates its **overall performance against DSO1 as Some Progress**. Full details of performance are given in Chapter 1.

DSO 2: Ensuring high and sustainable levels of economic growth, well-being and prosperity for all

DSO Outcome	Performance Indicator(s)	Assessment
a. Supporting low inflation	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 as measured by the 12-month increase in the Consumer Prices Index).	Met – Ongoing *(Target is live and continually measured)*
b. Promoting the efficiency and fairness of the tax system	Impact of policy measures on taxpayers.	Some Progress *(Less than 50 per cent of indicators showing improvement)*
c. Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future	Increase in the employment rate of the working age population; and Number of children in relative low-income households (less than 60 per cent of median income before housing costs).	Not Yet Assessed *(50 per cent of indicators or more without first time data)*
d. Improving the quality and value for money of public services	Progress in delivering on PSA commitments.	Not Yet Assessed *(50 per cent of indicators or more without first time data)*
e. Supporting fair, stable and efficient financial markets	Assessments of UK financial stability and risk management against international comparisons; Competitiveness of the UK's system for financial regulation; Financial capability and financial inclusion; and Helping to manage the risk from financing of terrorism.	Some Progress *(Less than 50 per cent of indicators showing improvement)*
f. Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst regions	Trend growth in output per worker (productivity) over the economic cycle; International comparisons of output per worker and per hour worked; and Regional Gross Value Added (GVA) per head growth rates in each region and between the best and worst performing regions.	Some Progress *(Less than 50 per cent of indicators showing improvement)*
g. Protecting the environment in an economically efficient and sustainable way	Increase in the size of the global carbon market; and Increased policy cost-effectiveness.	Some Progress *(Less than 50 per cent of indicators showing improvement)*

DSO 2: Ensuring high and sustainable levels of economic growth, well-being and prosperity for all – some progress

DSO Outcome	Performance Indicator(s)	Assessment
h. Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity	A stable, efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises; Progress towards the Millennium Development goals (as set out in the Government's International Poverty Reduction PSA)[1]; and A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness.	Some Progress *(Less than 50 per cent of indicators showing improvement)*

Overall Performance Rating

The Treasury rates its overall performance against DSO2 as "Some Progress". Full details of performance are given in Chapter 2.

PSA 9: Ending Child Poverty

PSA	Performance Indicator(s)
PSA9 Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020	The number of children in absolute low-income households The number of children in relative low income households The number of children in relative low-income households and in material deprivation

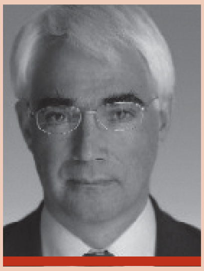
Overall Performance Rating

The Treasury rates its overall performance against PSA9 as "No Progress". Full details of performance are given in Chapter 3.

[1] http://www.hm-treasury.gov.uk/d/pbr_csr07_psa29.pdf

Ministerial responsibilities

Chancellor of the Exchequer – Rt Hon Alistair Darling MP



The Chancellor has overall responsibility for the work of the Treasury.

He is supported by:

- the Chief Secretary to the Treasury;
- the Financial Secretary to the Treasury;
- the Exchequer Secretary to the Treasury;
- the Economic Secretary;
- the Financial Services Secretary; and
- the Minister of State with responsibility for Revenue Protection at the border.

Chief Secretary to the Treasury

**Rt Hon
Liam Byrne MP**

- Responsibility for public expenditure including:
  - spending reviews and strategic planning;
  - in-year and medium-term control of departmental expenditure limits (DEL) and annually managed expenditure (AME);
  - public sector pay and pensions;
  - capital investment; and
  - public service reform, delivery and performance.
- Efficiency and Value for Money in public services, including the Public Value Programme; procurement and the Office of Government Commerce; and public asset management.
- Treasury interest in devolution and regional policy.
- Equitable Life.
- Assisting the Chancellor where necessary on a wide range of economic, International and European issues.

Financial Secretary to the Treasury

**Rt Hon
Stephen Timms MP**

- 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, including welfare reform and child poverty.
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency.
- Lead Minister on European and international tax issues and assisting where necessary on broader European issues.
- Overall responsibility for the Finance Bill.
- The voluntary sector, charities, including Corporate Social Responsibility.
- Assisting the Chancellor on European and International issues.

Exchequer Secretary to the Treasury

Sarah McCarthy-Fry MP

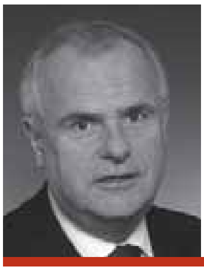
- Personal savings and pensions policy, financial inclusion and capability.
- Urban regeneration and social exclusion including housing, planning and stamp duty land tax.
- Environmental issues including taxation of transport, international Climate Change issues including global carbon trading and EU ETS, and Energy Issues including taxation of oil.
- Excise duties and gambling, including excise fraud and law enforcement.
- Ministerial responsibility for the Royal Mint and Departmental Minister for HM Treasury Group.
- Assisting the Financial Services Secretary on financial services policy, including Parliamentary business, asset freezing and financial crime.
- Equitable Life.
- Working with the Financial Secretary on the Finance Bill.

Economic Secretary

Ian Pearson MP

- Growth, enterprise and productivity including small business taxation, better regulation and support to the Chancellor on economic reform.
- Competition, science, innovation and skills policy.
- Industrial activism, including oversight of industrial and business support.
- Regional Economic Policy.
- EU Budget.
- Public/Private Partnerships including Private Finance Initiative, and Partnerships UK and working with the Chief Secretary on wider procurement policy.
- Working with the Financial Secretary on the Finance Bill.
- Government Actuary's Department.

Financial Services Secretary



Lord Myners

- Financial services policy including financial stability, city competitiveness, wholesale and retail markets in the UK, Europe and internationally and the Financial Services Authority (FSA).
- Assisting the Chancellor of the Exchequer in all business of the Tripartite Authorities (HM Treasury, Bank of England, FSA).
- Banking support, including responsibility for the Asset Protection Scheme. Recapitalisation Fund and other schemes, lending agreements and responsibility for UK Financial Investments (UKFI).
- Foreign exchange reserves and debt management policy, National Savings and Investment and Debt Management Office.

Minister of State with responsibility for Revenue Protection at the border

Phil Woolas MP[1]

- Responsible for the operational delivery of the UK Border Agency's (UKBA) revenue protection functions.
- Delivery of targets covering revenue protection and the examination of goods at the frontier.

[1] Jointly with the Home Office

Treasury Group structure

HM TREASURY

Sir Nicholas Macpherson
Permanent Secretary

Permanent Secretary and Ministerial Services

Sir Nicholas Macpherson Permanent Secretary

Create and maintain efficient and effective policies and systems to enable Ministers, the Treasury Board and the Permanent Secretary to give strategic direction to the department so that it delivers its objectives and targets now and in the future.

Budget, Tax And Welfare (BTW)

Mark Neale Managing Director

Sustain tax revenues and manage the risk to revenues, promoting a fair and efficient tax and benefit system with incentives to work, save and invest and expanding economic and employment opportunities for all.

Corporate Services Directorate (CSD)

Louise Tulett Group Director of Finance and Procurement

Chris Martin Director of Corporate Services

Stephen Parker Head of Treasury Legal Advisers

Provide corporate systems, services and facilities to enable HM Treasury to deliver effectively and efficiently, and as shared services within the Treasury Group and UKFI.

International and Finance (IF)

Tom Scholar Second Permanent Secretary

Stephen Pickford Managing Director

Promote UK economic prosperity by: maintaining stability and financial stability internationally and in the UK; promoting global prosperity, including for the poorest, and driving economic reform in the EU; promoting a fair, and efficient financial sector.

Public Services and Growth

Andrew Hudson Managing Director

Prime Minister's Delivery Unit

Ray Shostak Head of Prime Minister's Delivery Unit and Performance Management

Effective control and allocation of public spending; higher productivity in the public and private sectors; efficiency and excellence in public services and stronger economic growth.

Macroeconomic and Fiscal Policy (MFP)

Dave Ramsden Managing Director, Chief Economic Advisor, and Joint Head of the Government Economic Service

Maintain leading edge monetary and fiscal policy frameworks; provide expert macroeconomic and fiscal policy advice; forecasting economic prospects and the public sector finances; and promoting efficient and effective government debt cash and reserves management.

The UK Debt Management Office

United Kingdom Debt Management Office

Robert Stheeman
Chief Executive

Policy and Markets
Jo Whelan Deputy Chief Executive and Joint Head of Policy and Markets
Joanne Perez Joint Head of Policy and Markets

Operations and Resources
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Sustainability, Estates and Procurement Directorate
William Jordan Chief Sustainability and Operating Officer

Policy and Capability Directorate
Sally Collier Executive Director

Major Projects Directorate
Jonathan Simcock Executive Director

Buying Solutions
An executive agency of the OGC
Alison Littley Chief Executive

The objectives of the Treasury Group

The diagrams on the following pages set out the Treasury Group's DSOs, their related outcomes, and describe the relationship between the cross government PSAs and the DSOs.

HM Treasury Group Departmental Strategic Objectives

DSO 1: Maintain sound public finances

- **1(a)** Meeting the fiscal rules
- **1(b)** Ensuring that the tax yield is sustainable and risks managed
- **1(c)** Managing public spending
- **1(d)** Professionalising and modernising the finance and procurement functions in government
- **1(e)** Managing government cash, debt and reserves efficiently and effectively

DSO 2: Ensure high and sustainable levels of economic growth, well being and prosperity for all

- **2(a)** Supporting low inflation
- **2(b)** Promoting the efficiency and fairness of the tax system
- **2(c)** Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future
- **2(d)** Improving the quality and value for money of the public services
- **2(e)** Supporting fair, stable and efficient financial markets
- **2(f)** Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and the worst performing regions
- **2(g)** Protecting the environment in an economically efficient and sustainable way
- **2(h)** Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity

Cross Government PSAs linking to DSO Outcomes

Cross-Government PSAs	DSO Outcomes
PSA 1 Raise the productivity of the UK economy	**2(f)** Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and the worst performing regions
PSA 6 Deliver the conditions for business success in the UK	**2(b)** Promoting the efficiency and fairness of the tax system **2(e)** Supporting fair, stable and efficient financial markets **2(f)** Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and the worst performing regions
PSA 7 Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions	**2(b)** Promoting the efficiency and fairness of the tax system **2(f)** Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and the worst performing regions
PSA 8 Maximise employment opportunity for all	**2(b)** Promoting the efficiency and fairness of the tax system **2(c)** Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future
PSA 9 Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020	**2(c)** Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future
PSA 27 Lead the global effort to avoid dangerous climate change	**2(g)** Protecting the environment in an economically efficient and sustainable way **2(h)** Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity
PSA 29 Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals	**2(h)** Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity

1 Maintain sound public finances

Introduction

1.1 The Treasury's first Departmental Strategic Objective is to *maintain sound public finances*. This covers a wide range of work from policies to manage public spending, meet the fiscal rules, and manage the Governments cash, debt and reserves.

1.2 Sound public finances are essential for macroeconomic stability, which gives businesses and individuals the confidence to plan and invest for the long term. They also help to deliver low long-term interest rates, supporting businesses' access to new financing and resources for growth.

1.3 Global economic developments (outlined in more detail in chapter two) are having a profound effect on the fiscal positions of most countries, with debt likely to rise significantly in all advanced economies. During a period when demand is very weak and the operation of financial markets and monetary policy are impaired, it is appropriate to allow borrowing to rise to support the economy. Setting a credible plan to reduce borrowing over the medium term provides space for the Government to act flexibly in the short term to support the economy, while also promoting confidence in future growth and the private sector investment that will drive economic recovery.

1.4 The Government's objectives for fiscal policy in the face of global shocks remain unchanged:

- 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.

1.5 Consistent with these objectives, the Government is taking action to support economic recovery while protecting fiscal sustainability in the following way:

- to support recovery, it is delivering fiscal support worth 4 per cent of GDP in 2009-10, from the measures announced in Budget 2009, the 2008 Pre-Budget Report and the operation of the automatic stabilisers; and
- to ensure sound public finances and protect fiscal sustainability, the Government and has set out plans to deliver a sustained fiscal consolidation once the economy emerges from the downturn, including through a combination of adjustments to tax and spending.

Setting a credible plan to reduce borrowing over the medium term provides space for the Government to act flexibly in the short term to support the economy, while also promoting confidence in future growth and the private sector investment that will drive economic recovery.

1.6 This approach is supported by widespread international agreement on the need to provide fiscal support in the short term, while ensuring fiscal sustainability over the medium term. The International Monetary Fund (IMF) recently noted "Macroeconomic policy stimulus will be critical to support demand while financial issues are addressed and to avoid a deep and prolonged recession… fiscal policy must play a central role in supporting demand, while remaining consistent with medium-term sustainability"

1.7 To underpin its commitment to sustained fiscal consolidation, the Government set a temporary fiscal operating rule in the 2008 Pre-Budget Report: to set policies to improve the cyclically adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full (DSO outcome 1a).

1.8 As there is considerable uncertainty over the path of the economy and the public finances in the short term, and over the persistence of the economic shocks, setting a rule focused on steady improvement in the public finances allows flexibility to adjust to unanticipated developments in the economy, while constraining fiscal policy to deliver sound public finances over the medium term.

(a) Short term fiscal support

1.9 In line with measures being taken across the world, the Government has acted to provide fiscal support to the economy:

- The 2008 Pre-Budget Report announced a timely, targeted and temporary fiscal stimulus package worth around 1 per cent of GDP in 2009-10, including a temporary reduction in the rate of VAT to 15 per cent and bringing forward £3 billion of capital spending.
- The Budget 2009 announced further targeted support for those most affected by the downturn and to ensure a sustained and sustainable recovery, including measures to provide temporary support through the downturn for employment (DSO outcome 2c), investment and housing.

1.10 In total, **the Government is providing fiscal support worth 4 per cent of GDP in 2009-10 from measures announced in Budget 2009, the 2008 Pre-Budget Report and the operation of the automatic stabilisers.** As a result, Budget 2009 projections show that Public Sector Net Borrowing (PSNB) has increased. From 2.4 per cent of GDP in 2007-08, PSNB increased to 6.3 per cent of GDP in 2008-09, cushioning the economy from the impact of a similarly large downward adjustment to private sector borrowing. PSNB is projected to peak at 12.4 per cent of GDP in 2009-10, before declining to 5.5 per cent in 2013-14, as the economy recovers and discretionary tightening (see below) takes effect to ensure sustainability of the public finances.

Box 1.A: Financial Sector interventions

As set out in the Code for fiscal stability, the Government is committed to reporting as transparently as possible on the fiscal position to enhance public scrutiny of fiscal policy-making. At Budget 2009, the Government provisionally estimated that net unrealised losses on financial sector interventions might lie within a potential range from £20 billion to £50 billion (or 1½ per cent to 3½ per cent of GDP). The Budget set out both the Government's baseline fiscal projections, excluding liabilities and unrealised losses from financial sector interventions, and projections for borrowing that include the high end of a provisionally estimated range for the net impact of unrealised losses, equal to 3½ per cent of GDP. Setting out estimates of these losses is inherently difficult in current market conditions. However, in setting plans to meet the Government's fiscal objectives in future it is prudent to make allowance for the potential for losses on financial sector interventions

(b) Fiscal consolidation

1.11 The Government has acted to protect fiscal sustainability by prioritising its actions carefully, to ensure they will support recovery and future economic growth, and it is committed to delivering a sustained fiscal consolidation over the medium term to ensure sound public finances, through a combination of adjustments to tax and spending.

1.12 The Government has taken a judgement on the appropriate pace of the consolidation of the public finances. This judgement recognises the uncertainty around prospects for the public finances given the exceptional nature and strength of the synchronised global downturn, the need to support the economy through the early stages of recovery, and the need to deliver sustainable public finances.

1.13 Building on the significant fiscal consolidation announced in the 2008 Pre-Budget Report, the 2009 Budget set out further tax and spending measures, implemented at a time when the economy is forecast to be recovering and able to support fiscal consolidation, which reduce borrowing by £26.5 billion by 2013-14.

Box 1.B: Principal tax measures in Budget 2009 (DSO outcome 2b)

In Budget 2009 the Government set out a number of reforms to support consolidation and reinforce the fairness of the tax system:

- restriction of the income tax personal allowance for those with incomes over £100,000 from April 2010;
- application of an additional rate of income tax of 50 per cent to income over £150,000 from April 2010;
- restriction of tax relief on pension contributions for those with incomes of £150,000 and over from April 2011, and tapered down until it is 20 per cent; and
- increasing fuel duty by 2 pence per litre from 1 September 2009 and by 1 penny per litre in real terms each year from 2010 to 2013.

Box 1.C: Principal spending measures in Budget 2009 (DSO outcome 1c)

In Budget 2009, the Government set out new assumptions for spending growth from 2011-12 onwards, to ensure continued investment and improvements in front line public service priorities, while ensuring sustainable public finances in the medium term:

- current spending to grow by an average of 0.7 per cent a year between 2011-12 and 2013-14 in real terms;
- public sector investment will move to 1¼ per cent of GDP by 2013-14; and
- by releasing additional efficiency savings through the Operational Efficiency Programme (£9 billion of additional savings between 2011-12 and 2013-14), an expanded Public Value Programme of Value for Money reviews of departmental budgets, resource-releasing property and asset disposals (up to £16 billion in the three years from 2011-12), and work to ensure the working age benefits system is fair and affordable over the long term, the Government will be able to continue investment in and improvement of public services.

1.14 As a result of this action, the cyclically-adjusted current balance improves by, on average, over 0.8 per cent a year from 2010-11 to 2013-14. Based on cautious fiscal forecasting assumptions, PSNB is projected to decline to 5.5 per cent of GDP by 2013-14. Public Sector Net Debt (PSND) increases over the forecast period, before stabilising at 79 per cent of GDP in 2013-14 including unrealised losses on financial sector interventions, compared with 36 per cent at the end of 2006-07 when the economy was last on trend.

1.15 On the assumption that the Government delivers a further consolidation of 0.8 per cent of GDP a year in the cyclically-adjusted budget beyond 2013-14, the fiscal projections set out in Budget 2009 are consistent with the temporary fiscal operating rule, returning to cyclically-adjusted budget balance and debt falling as a proportion of GDP by 2017-18 when the global shocks will have worked through the economy in full.

1.16 The Budget 2009 fiscal forecast represents a cautious projection of the public finances. It is based on the lower end of the GDP forecast range, incorporates a cautious judgement for unrealised losses on financial sector interventions, and uses assumptions on oil prices and equity prices and the VAT gap that are audited by the National Audit Office and that build increased caution into the public finance projections during a period of recession in particular.

Table 1.A Summary of fiscal projections

	Per cent of GDP						
	Outturn	Estimate			Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Public sector net borrowing (PSNB)	2.4	6.3	12.4	11.9	9.1	7.2	5.5
Total change since 2008 Pre-Budget Report	*-0.1*	*0.9*	*4.4*	*5.1*	*3.8*	*3.1*	*2.6*
Impact of discretionary measures on PSNB[1]	*0.0*	*0.0*	*0.5*	*0.0*	*-0.5*	*-1.1*	*-1.5*
Surplus on current budget	-0.4	-3.6	-9.3	-9.4	-7.2	-5.6	-4.3
Cyclically-adjusted surplus on current budget	-0.7	-3.1	-6.7	-6.4	-4.9	-3.9	-3.2
Public sector net investment	2.1	2.6	3.1	2.5	1.9	1.6	1.3
Public sector net debt[2]	36.5	43.0	55.4	65.0	70.9	74.5	76.2
Public sector net debt including unrealised losses[3]	36.5	46.5	59.0	68.4	74.0	77.5	79.0

Note: Figures on a National Accounts basis unless otherwise indicated

[1] Including changes in forecasting assumptions on spending growth in 2011-12, 2012-13, and 2013-14.
[2] Debt at month end March, GDP centred on end March; excluding financial sector interventions.
[3] Debt at end March; GDP centred on end March; including unrealised losses on financial sector interventions.

(c) Long term fiscal issues

1.17 It remains important to monitor challenges to the public finances over the long term. The 2008 *Long-term public finance report* provided a comprehensive assessment of the impact of demographic change on the public finances, based on long-term fiscal projections. While demographic structures will change in the longer term, the UK compares favourably in that respect with other European countries. The next Long-term public finance report will be published later in 2009 and will be able to reflect the EU Economic Policy Committee's latest, 2009, budgetary projections, which give fifty-year projections of age-related expenditure across EU countries.

(d) Financing

1.18 As is the case for other countries, debt issuance in the UK was higher in 2008-09 and will be higher in 2009-10 than in preceding years. Debt agencies around the world, including the UK Debt Management Office (DMO) have an important and essential role in delivering increased debt issuance successfully in the interests of the taxpayer (DSO outcome 1e).

Overall Performance assessment – DSO 1: Some progress

1.19 The following pages contain an assessment of the individual outcomes that, when taken together, constitute performance against DSO1. Each outcome is taken in turn, and an assessment given of whether progress has been made, and what the level of that progress is. A data statement is given, which clearly states what data is gathered on the outcome, and how this has enabled the Treasury to come to its assessment of progress. Commentary puts this performance into context, giving more information and detail, and finally there is a discussion of the overall risks to delivery of the outcome and the Treasury's future plans.

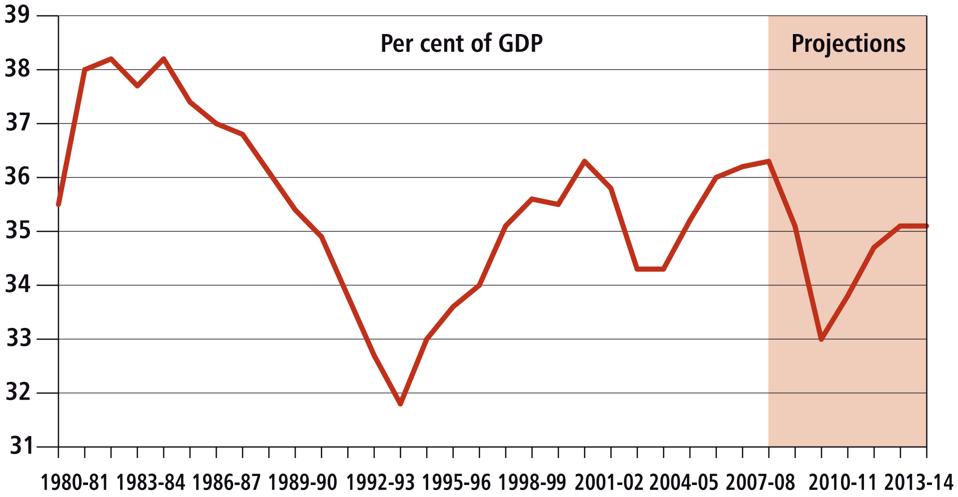
1.20 Taking performance against each of these outcomes together has enabled the Treasury to come to an assessment of performance against DSO1 in totality. A majority of the DSO1 outcomes are showing some or strong progress, and, as set out above, the Treasury has taken a number of steps to press ahead on the agenda for this DSO, therefore the Treasury's assessment against DSO1 is that it has shown some progress over the period.

Assessment of DSO1 outcomes

DSO Outcome – 1(a) Meeting the fiscal rules	
Overall outcome assessment	Not yet assessed
Indicator	To set policies to improve the cyclically-adjusted current budget in each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.
Assessment against indicator	Not yet assessed
Data Statement	The Budget 2009 fiscal forecasts project the cyclically-adjusted current deficit to fall from 6.7 per cent in 2009-10 to 3.2 per cent of GDP in 2013-14, an average improvement of over 0.8 per cent a year, and for net debt to stabilise at 79 per cent of GDP in 2013-14 including a provisional estimate of unrealised losses on financial sector interventions. The Budget set out illustrative projections from 2014-15, based on a further improvement of 0.8 per cent of GDP per year in the cyclically-adjusted current budget, which would eliminate the deficit on the cyclically-adjusted current budget by 2017-18. The Budget 2009 fiscal projections specify an improvement in the cyclically-adjusted current budget each year from 2010-11, and are consistent with returning to cyclically-adjusted current balance by 2017-18, when the global shocks will have worked their way through the economy in full, and debt falling as a proportion of GDP by 2015-16. This is consistent with the Government's temporary operating rule.
Overall Outcome Commentary	The fiscal rules were met over the last economic cycle – the sustainable investment rule, requiring debt to be maintained at a stable and prudent level over the economic cycle, and the golden rule, requiring the current budget to be in balance or surplus over the course of the cycle. However, the impact of recent major global shocks on the economy and the public finances means that applying the fiscal rules in current circumstances would not be consistent with achieving the Government's objectives for fiscal policy – it would require damagingly pro-cyclical fiscal policy at a time when fiscal policy needs to act with monetary policy to support the economy. The 2008 PBR set out that, to achieve its objectives, and as provided for in the *Code for fiscal stability*, the Government will depart temporarily from the fiscal rules until the shocks have worked their way through the economy in full. The Government has set a temporary fiscal operating rule, set out in the performance indicator above. The global economic shocks have had a profound effect on the public finances of all major economies. At the time of the 2008 PBR, the financial crisis was still at a relatively early stage. The 2008 PBR forecast that its impact on the public finances would be focused on the financial and housing sectors, though noted the uncertainties. Between the 2008 PBR and the Budget 2009, the crisis broadened out globally and in the UK to affect the whole of the economy. The Budget 2009 fiscal projections, which reflect these developments are based on cautious fiscal forecasting assumptions, and are consistent with the temporary operating rule.
Quality of Data Systems	Underlying data are sourced from the Office for National Statistics. The National Audit Office conducted a review for Budget 2009 of the Treasury's approach to producing estimates of the public finances adjusted for the effects of the economic cycle, and concluded that it is reasonable.
Risks to Delivery	Forecasts for the economy and public finances are subject to considerable uncertainty in the current circumstances, including the resolution of the global financial crisis and its impact on confidence and activity.
Future Plans	There is considerable uncertainty over the path of the economy and the public finances in the short term – however, the temporary operating rule allows the Government flexibility to adjust to unanticipated developments in the economy. The Government is committed to ensuring sound public finances and protecting fiscal sustainability.

DSO Outcome – 1(b) Ensuring that the tax yield is sustainable and the risks managed	
Overall outcome assessment	Not yet assessed.
Indicator	Tax Yield over Economic Cycle
Assessment against indicator	Not yet assessed
Data Statement	PBR 2008 announced a final assessment of the tax yield over the previous economic cycle, which ended in the second half of 2006. Data on progress over the current economic cycle will be reported in due course.
Overall Outcome Commentary	It is not yet possible to make an assessment against this outcome as the economic cycle is at an early stage, and the duration of the cycle is not yet clear.

Tax-GDP ratio[1]



[1] Net taxes and NICs as defined in Budget 2009.
Source: HM Treasury

The tax to GDP ratio may be used as an indicator of the level of taxation in any given year. The tax to GDP ratio outlined in Budget 2009 falls from 35.1 per cent in 2008-09 to 33.0 per cent in 2009-10. It is then forecast to rise to 34.7 per cent in 2011-12, and reach 35.3 per cent in 2013-14. The forecast of the average tax to GDP ratio for the six-year period between 2007-08 and 2012-13 at Budget 2009 was 34.7 per cent, compared to 37.3 per cent as forecast at PBR (CSR) 2007.

Since Budget 2008, lower levels of output across the economy have acted significantly to reduce tax receipts. Lower economic growth over the forecast period, coupled with a recovery led by investment and exports (which is predicted to generate lower receipts than a consumer-led recovery), suggests that a substantial element of the receipts shortfall due to economic factors will persist.

	The discretionary policy measures announced in the 2008 PBR and Budget 2009 lower the tax yield in the short term, and increase tax revenue in the medium term. Budget 2009 put the public finances on a path to achieve a cyclically adjusted current balance in 2017-18.Performance against DSO outcome 1b is closely linked to that of other DSO outcomes, particularly DSO 1a. For further detail on meeting the fiscal rules, please refer to DSO 1a.
Quality of Data Systems	Underlying data are sourced from the Office for National Statistics.
Risks to Delivery	The economic forecast is a key determinant of the tax receipts forecast. Forecasts for the economy and public finances are subject to considerable uncertainty in the current circumstances, including the resolution of the global financial crisis and its impact on confidence and activity.
Future Plans	The Treasury continues to monitor tax receipts on an ongoing basis. Receipts data are released jointly by the Office for National Statistics and the Treasury on a monthly basis. Forecasts and analysis are published twice a year, in the Budget and in the Pre-Budget Report.

DSO Outcome – 1(c) Managing Public Spending	
Overall outcome assessment	No Progress
Indicator 1	Differences between Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) at Budget and actual outturns as at the End of Year Fiscal Report.
Indicator 2	Differences between Public Sector Net Investment (PSNI) at Budget and actual outturns as at the End of Year Fiscal Report.
Assessment against indicator	
Indicator 1	No improvement
Indicator 2	No improvement
Data Statement	
Indicator 1	PSCE Outturn for 2007-08 was £535.7 billion compared to £538.6 billion as forecast in Budget 2007, remaining within 0.5 per cent of the Budget forecast.
Indicator 2	PSNI Outturn for 2007-08 was £29.9 billion compared to £29.4 billion as forecast in Budget 2007, remaining within 2 per cent of the Budget forecast.

Overall Outcome Commentary	The 2.9 billion reduction in PSCE, which represents 0.5 per cent of Total Managed Expenditure, was lower than forecast due to a combination of factors:
	• £3.9 billion forecasting differences and £0.1 billion changes in the assumptions audited by the National Audit Office, which reduced PSCE.
	• Offset by increases due to:
	  • £0.7 billion additional spending due to differences between forecast and outturn for economic determinants such as economic growth and the components of economic growth; and
	  • £0.4 billion additional spending due to other factors; including classification changes.
	PSNI outturn for 2007-08 was £29.9 billion, £0.5 billion higher than the 2007 Budget forecast of £29.4 billion. This increase of £0.5 billion, which represents 0.1 per cent of Total Managed Expenditure, was due entirely to forecasting differences.
	At the time of publishing, 2008-09 PSCE and PSNI outturn as at the End of Year Fiscal Report was not yet available. The assessment is therefore based on 2007-08 outturn data. A detailed breakdown of performance against these indicators can be found in Chapter Four of the End of Year Fiscal Report[1] published alongside the 2008 PBR and available on the Treasury website.

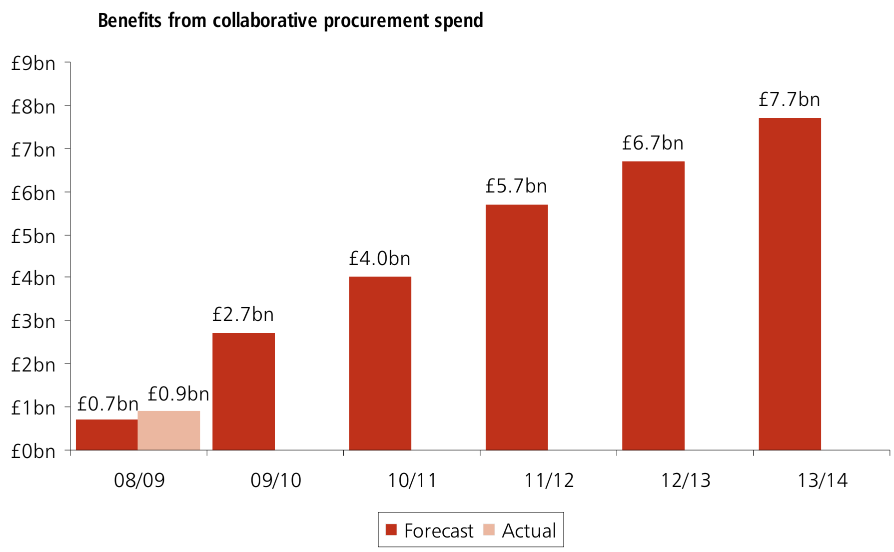
[1] hm-treasury.gov.uk/d/pbr08_endofyear_403.pdf

Quality of Data Systems	High quality data systems. PSCE and PSNI outturn are taken from the joint ONS and the Treasury Public Sector Finances release, which is subject to National Statistics protocols on data quality. Forecasts are primarily based on departmental plans reported on Treasury's spending database (COINS). The plans from this source are separately published in Departmental Annual Reports.
Risks to Delivery	Economic uncertainty
Future Plans	Budget 2009 set out revised estimates for 2008-09 PSCE and PSNI outturn. PSCE is estimated as £564.5 billion at Budget 2009 compared to a projected £566.2 billion at Budget 2008, a reduction of 0.3 per cent. PSNI is estimated as £37.7 billion at Budget 2009 compared to a projected £32.9 billion at Budget 2008, an increase of 14.6 per cent. Final 2008-09 outturn for both PSCE and PSNI will be available when the End of Year Fiscal Report for 2009 is published in the usual way alongside the 2009 Pre-Budget Report.

DSO Outcome – 1(d)(i) Professionalising and modernising the finance function in government	
Overall Outcome Assessment	Strong Progress
Indicator 1	Performance at departmental level in timeliness and quality of in year and external reporting
Assessment against indicator	Some improvement
Data Statement	For financial year 2007-08, 43 out of 45 departments (96 per cent) laid their resource accounts before the House before the parliamentary summer recess. This compares with 41 out of 44 departments (93 per cent) for the previous financial year. There were four qualified accounts: the Department for Transport (Excess Vote), the Department for Work and Pensions (Regularity), the Office of Fair Trading (Excess Vote) and the Ministry of Defence (Limitation in scope). There were a similar number of qualifications for financial year 2006-07, involving the Ministry of Defence, the Armed Forces' Pension Scheme, the Department for Work and Pensions and the Teachers' Pension Scheme. For financial year 2008-09, 56 out of 59 (95 per cent) departments, pension funds and other central government bodies, including all major departments, regularly provided monthly in-year monitoring figures to the Treasury. Of the 56 supplying bodies, each month an average of 46 (82 per cent) supplied on time, with an average of 46 (82 per cent) updating forecasts with actual expenditure on time. Of the 59 bodies required to report monthly in-year figures to the Treasury in 2008-09, an average of 13 (22 per cent) regularly met all agreed standards for timeliness and accuracy. Accuracy has improved during the year.
Overall Outcome Commentary	There has been strong progress in taking forward this DSO outcome over recent months, with all major departments now having a professionally qualified Finance Director. Key initiatives in 2008-09 have included: • Taking forward the Alignment (Clear Line of Sight) Project, on which the Government submitted formal proposals to Parliament in March 2009 for achieving better alignment between budgets, estimates and accounts and simplifying and streamlining government's financial reporting to Parliament; • Supporting and enabling departmental Finance Directors and other senior finance professionals to improve financial and performance management across government. In October 2008, departmental Finance Directors committed to improving performance by introducing benchmarking and implementing the CIPFA Financial Management self-assessment tool; • Initiating a review of the Corporate Governance Code, with the aim of reporting in early 2010; and • Initiating a review of internal audit in central government in spring 2009 to further develop and transform internal audit services across government. Work has continued in parallel to strengthen further the capability and capacity of finance professionals and improve the finance skills of 30,000 civil servants, in line with the Professional Skills for Government Agenda, by broadening and defining the standards of financial management competence. In addition, a number of high profile financial management events have taken place, including: an external stakeholder engagement event at No 11 Downing Street in September 2008, at which the Head of the Government Finance Profession shared his

	vision for World Class Performance Management for central Government; an event for Non-Executive Board Members in February 2009, facilitated by the Treasury and senior external advisors, focusing on how their skills can best be used to help drive a culture of improved financial and performance management; and the annual World Class Performance Symposium, jointly hosted by the Treasury and CIPFA at the Queen Elizabeth II Conference Centre in February 2009, bringing together over 200 practitioners of performance and financial management from central government and the wider public sector. As part of measuring and improving the quality of in-year reporting, data quality indicator sets were introduced for financial year 2008-09. The data quality standards are currently applied to monthly in-year figures supplied to the Treasury for spending control and fiscal monitoring purposes, and the exercise is now being extended to annual planning and outturn data. The reporting changes proposed under the Alignment Project will also bring more streamlined and efficient reporting to Parliament and lead to better accountability. Steady progress has been made against the first two trigger points for implementation of International Financial Reporting Standards (IFRS) in 2009-10, and in addressing key issues. Progress towards publishing whole of government accounts (WGA) has been mixed, with 2007-08 audit issues largely unchanged from 2006-07 and a number of consolidation issues still to be resolved.
Quality of Data Systems	Quality of data is high with departments submitting their resource accounts to the Treasury for laying before the House.
Risks to Delivery	The main potential risk to delivery of the DSO Outcome would arise if there were a lack of co-operation by key stakeholders in taking forward the various strands of the financial management agenda. This risk is addressed through high-level engagement with stakeholders to drive forward the various aspects of improved financial management, reporting and governance.
Future Plans	The key change strands that will be critical in taking forward the DSO outcome over the coming months are: • setting the right tone from the top in terms of improving financial management across government. • subject to Parliament's approval of the Alignment (Clear Line of Sight) reforms, requested by July 2009, continuing to plan to start implementing the new system on a phased basis from April 2010; • successful implementation of International Financial Reporting Standards (IFRS) in 2009-10; • delivery of whole of government accounts (WGA) for 2009-10; • further improvements in the quality of in-year reporting; • designing and agreeing a revised corporate governance framework; and • developing a strategic improvement plan for internal audit transformation The reporting changes proposed under the Alignment Project, IFRS and WGA, in particular, will bring more streamlined and efficient financial reporting, and better accountability, to Parliament and the public.

DSO Outcome – 1(d)(ii) Professionalising and modernising the procurement function in government	
Overall Outcome Commentary	Strong Progress
Indicator 1	Efficiency: Savings from the take up of collaborative opportunities and other procurement activity.
Indicator 2	Effectiveness: Improvements in the delivery performance of the government's procurement and capability.
Assessment against indicators	
Indicator 1	Improvement
Indicator 2	Improvement
Data Statement	
Indicator 1	Against a target for 2008-09 of £700m, OGC has already identified savings from public sector collaborative procurement of £900m for the year.
Indicator 2	OGC completed the first of its Procurement Capability Reviews at the end of 2008. The reports on the individual departmental reviews, and the related improvement plans, have been published on the OGC website. Tangible improvement in procurement operations in departments is evident.
Overall Outcome Commentary	Efficiency Collaborative procurement strategies have already delivered large value for money savings across government. Collaborative procurement is also incorporating sustainable procurement strategies to help the government achieve its targets for reducing carbon emissions. Savings for collaborative procurement are assessed annually. The Operational Efficiency Programme (OEP) has ratified a savings figure of £5.7 billion per annum by 2011-12 rising to £7.7 billion per annum by 2013-14 against a 2007-08 baseline. The first two waves of collaborative savings cover six categories of spending – energy, fleet, Information Communication Technologies (ICT), professional services, travel and office solutions. Food and construction are forerunners to a future wave which will also include facilities management. Savings from these further categories will contribute to the overall target.



	Effectiveness The OGC CEO as Head of GPS has worked with Departments to raise the profile of the profession: he has agreed two professional objectives with each Departmental Head of Procurement/Commercial Director focussing on (1) professional development of the procurement function and (2) achievement of OEP collaborative procurement targets. He has been invited to sit on a number of recruitment Boards to appoint Commercial Directors/Heads of Procurement and chairs quarterly meetings of the GPS Council (on which all 16 central government Departmental Heads of Procurement/Commercial Directors sit.) The GPS Reform programme has collated critical data/management information to inform the future strategy of the profession e.g. numbers, learning & development gaps, total reward and is working with Cabinet Office to develop a workforce plan and strategy for the profession. Contract managers are now explicitly referenced in the 'Government Procurement professional ' definition. There are approximately 4000 procurement professionals in central government Departments. The Government Procurement Service (GPS) Reform programme also launched a number of new products and initiatives to raise capability and increase capacity e.g. the cross Departmental Government Procurement Graduate Scheme (GPGS), Cabinet Office fast stream procurement placement option scheme, skills frameworks for procurement leaders and practitioners and the GPS Total Reward Strategy. The Procurement Capability Review (PCR) programme has realised many benefits to the departments reviewed. For instance, the review of the Department for Children, Schools and Families (DCSF) triggered the development of a Commercial Strategy and a new organisational structure to manage procurement, thereby allowing for stronger collaboration between DCSF, NDPBs and local authorities. Within the Ministry of Justice (MoJ), the review promoted the implementation of spend analysis, resourcing and contract management tools which will lead to better decision making and collation of management information in the future. The Procurement Capability Review of the Department for Transport (DfT) supported the department's own plans to establish a Highways Investment Board. This has resulted in a strengthened intelligent client capability for DfT over roads investment and other commercial decisions made by the Highways Agency.
Quality of Data Systems	The measurement methodologies for collaborative savings have been applied to the entire programme and are being extended to incorporate environmental procurement considerations. The methodologies comply with existing Treasury guidance for government Departments. This guidance is currently being reviewed in consultation with the NAO and will be republished later this financial year Procurement Capability Review reports have been moderated by a panel that includes the Treasury, NAO and the CBI. The progress made against action plans are assessed by the OGC and Departments.
Risks to Delivery	External factors impact adversely on the ability to realise savings anticipated.
Future Plans	Efficiency Following the recommendations of the OEP, collaborative procurement strategies will concentrate on: • Extending current programme to other categories of common spend, including construction, food and facilities management; • Improving the quality of management information on procurement spend across public sector;

- Improving access to better deals for local service providers across 'wider public sector' by working with Professional Buying Organisations (PBOs) in a more regulated manner; and

- Increasing uptake of collaborative strategies across the public sector – 80 per cent by central government and 50 per cent by the wider public sector of available spend by March 2011.

Effectiveness

The next wave (Wave 2) of Procurement Capability Reviews (PCRs) will be extended to include more Government Departments at the same time as being streamlined to reduce costs and further improve effectiveness. This outcome will be achieved by using internet based self-assessment model that will be driven by robust objective performance metrics produced by Departments and quality assured by OGC.

DSO Outcome – 1(e) Managing Government cash, debt and reserves	
Overall Outcome Assessment	Strong Progress
Indicator 1	All operational activities carried out without major error.
Indicator 2	Appropriate limits and monitoring systems to control financial risks are in place.
Assessment against indicators	
Indicator 1	Improvement
Indicator 2	Improvement
Data Statement	
Indicator 1	All operational activities were delivered during 2008-09 without major error. The entities delivered their respective core objectives and – in the case of the UK Debt Management Office (DMO), the Bank of England and National Savings and Investments (NS&I) – their respective remits and service level agreement as set by the Treasury against the backdrop of challenging market conditions. NS&I generated additional funding above its remit due to an unplanned increase in demand for NS&I products as result of the 'flight to safety', caused by the conditions in the retail savings and financial markets.
Indicator 2	Appropriate limits and monitoring systems to control financial risks are in place. The entities have continued to maintain and develop their respective financial control frameworks to ensure that relevant risks have suitable limits and monitoring systems.
Overall Outcome Commentary	Debt, cash and reserves must be managed effectively and efficiently with remits met and with minimal operational error or disruption in order to protect the Exchequer from financial and reputational risk over the short, medium and longer term. This DSO outcome is delivered by and through a number of entities and agencies, including the DMO, NS&I and the Bank of England. These entities and agencies publish performance data against their own basket of indicators. The Treasury Group reports on the two headline indicators shown above. 2008-09 was the second year of NS&I's five year strategy "Adding Value", which does not aim to achieve market growth but aims to deliver sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business. In 2008-09, NS&I's net financing outturn was significantly above its original target. This was a result of prevailing market conditions, changes to interest rates beyond those originally forecast, and the impact on NS&I of the strain in financial markets, beyond NS&I's control, which led to an unplanned increase in demand for NS&I products due to a 'flight to safety'. In accordance with the Service Level Agreement with the Treasury, the Bank managed the UK foreign currency reserves consistently with the Government's policy aims. A key objective is to maintain their liquidity and security and, subject to that to minimise the cost of holding the reserves. The Treasury set a target active management return as part of the annual SLA. This target, along with other aspects of management of the reserves, makes up the basket of indicators agreed for 2008-09. The Treasury reports formally against these measures in the 2008-09 Exchange Equalisation Account. At end March 2009 the UK net reserves were £ 19.7 billion ($28.3 billion) compared with £ 13.6 billion ($27.1 billion) a year ago.

	The public sector continued to be funded in a secure, efficient and effective manner, with over £500 billion of cash being supplied from the Consolidated Fund to government departments to pay for the delivery of their services. The Bank of England is withdrawing from the provision of retail banking. Treasury continues to be involved in the HMRC-led Government Banking Project, which is establishing a replacement retail banking infrastructure for the movement of cash around government. The DMO successfully delivered its financing remit, primarily through a gilt sales programme of £146.5 billion via 58 auctions and 8 mini-tenders. Treasury bills also contributed £26.4 billion to financing. The DMO's gilt sales target was increased twice in 2008-09, from an original £80.0 billion at Budget 2008 to £110.0 billion in October 2008 (to help finance banking sector recapitalisation) and again to £146.4 billion in the Pre-Budget Report in November 2008. The DMO's cash management remit for 2008-09 was also successfully delivered. The DMO continues to measure and monitor the performance of its Exchequer cash management function against a series of quantitative and qualitative indicators. A report of performance against a series of key performance indicators will be published in DMO 's Annual Report and Accounts for 2008-09. The DMO successfully conducted, on behalf of the Department of Energy and Climate Change (DECC), the first auction of the EU Emissions Trading Scheme Allowances (EUA) in November 2008. It successfully auctioned a further amount in March 2009 taking the total amount of EUAs auctioned to 8 million. The DMO will continue to work closely with DECC in delivering the programme of Emissions Trading Scheme auctions. In April 2008, the Bank of England launched the Special Liquidity Scheme (SLS) with the intention of improving the liquidity position of the banking system by allowing financial institutions to swap some of their illiquid assets for UK sterling Treasury bills (Treasury bills). To facilitate this, Treasury bills were created by the Treasury's National Loans Fund and sold to the Debt Management Account for on-lending to the Bank. At the end of the drawdown period (30th January 2009), Treasury Bills with a face value of £185.8 billion had been lent to financial institutions under the SLS In October 2008, the Treasury announced a Financial Intervention Package; one of the components of which was the Credit Guarantee Scheme. This scheme is administered by the DMO as agent for the Treasury and was successfully set up and operational within a few days of its announcement. By the end of December 2008 approximately £100 billion of guaranteed bank debt had been issued under the scheme. Additionally in January 2009, the Treasury announced further initiatives including the then planned introduction of a scheme to guarantee the issue of certain asset-backed securities. The details of this scheme were duly announced as part of the Budget earlier this year and it is now operational and being administered by the DMO.
Quality of Data Systems	The quality of the entities' data systems to monitor performance is high with a strong governance framework including structured and clear Accounting Officer lines of responsibility to Parliament; board frameworks with non-executive representation; audit committees with independent membership; and systems and controls and reporting mechanisms that are reviewed regularly by the National Audit Office.

Risks to Delivery	The key risks to delivery are: • any unforeseen financial and/or operational risks arising from the respective objectives of the relevant agents and entities; and • in view of the range of objectives for 2009-10 to be delivered by the relevant agents and entities, the continuation of challenging market conditions.
Future Plans	Future plans include: • a debt management remit for 2009-10 that includes gross gilt issuance of £220 billion; • a number of technical changes to the distribution methods for gilts reflected in the DMO's debt management remit for 2009-10 including the use of a programme of syndicated offerings and also a post-auction option for successful bidders at auctions to acquire additional stock; and • continued close involvement with the debt, cash and reserves management aspects of a range of projects, such as financial sector driven initiatives and the Government Banking Project.

Box 1.D: The UK Debt Management Office

The UK Debt Management Office (DMO) is the executive agency of the Treasury specialising in the provision of policy advice on and the delivery of the government's financing needs. It acts as a key gateway for government to the wholesale financial markets and performs these functions primarily to support the Treasury's objective of maintaining sound public finances.

The DMO's core objectives relate directly to DSO 1(e) - Managing government cash, debt and reserves efficiently and effectively.

In addition, the DMO has the following core objectives:

- to develop, provide advice on and implement HM Government's debt management strategy;
- to develop, provide advice on and implement HM Government's cash management requirements;
- to advise the Treasury on the development and implementation of strategies for managing HM Government's balance sheet, to secure sound public finances;
- to provide advice and operational services to other government departments on wholesale markets-related issues and activities;
- 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.

2 Economic growth, well-being and prosperity for all

Introduction

2.1 The Treasury's second Departmental Strategic Objective is to *ensure high and sustainable levels of economic growth, well-being and prosperity for all*. This covers a wide range of work from ensuring financial stability to the setting of policies for welfare and tax reform.

2.2 The exceptional economic events of the past year have resulted in governments around the world utilising various and many policy levers to support their economies. The UK has been no exception. However, global economic challenges require an **international response** (DSO outcome 2h).

2.3 The leaders of the **G20** met at the **London Summit** in April 2009 and pledged to "do whatever is necessary… to bring the world economy out of recession and prevent a crisis like the one currently affecting the global economy from recurring in the future". They reached agreement on a global plan for recovery and reform – to restore growth and jobs; to strengthen the International Financial Institutions (IFIs); to promote global trade and investment; and to ensure a fair and sustainable recovery for all. This plan built upon the unprecedented and concerted action being undertaken in G20 countries, such as fiscal expansion; expansionary monetary policies; and action to support the banking system.

2.4 This international agreement reinforced a strong UK **domestic response** to the economic challenges being faced, which aimed to both stabilise the financial system and provide macroeconomic support to the economy.

2.5 The employment packages announced at and since PBR08 have provided an extra £4.5bn over two years to maintain support for people who become unemployed and to prevent detachment from the labour market which would inhibit future economic growth. The success of these measures can be seen in the rise in the numbers of people leaving unemployment over recent months and the high proportion of individuals who leave the claimant count within six months

2.6 In support of this, the Treasury has made reforms to the tax and welfare regimes, including the reduction in the rate of Value Added Tax, combined with additional assistance for the unemployed that will support the public through the downturn while also ensuring the economy is in a stronger position as prospects improve.

(a) Stabilising the financial system

2.7 The financial system plays a **crucial role** in all modern economies, affecting the lives of every individual and business. It is the core mechanism by which resources are allocated through the economy, channelling funds from savers to creditworthy borrowers, and thereby supporting productivity, growth and jobs.

2.8 The Government, supported by the work of the Treasury and others including the Bank of England and the Financial Services Authority, have undertaken a series of **interventions** to address problems in the financial system. The Treasury has worked quickly and efficiently to support and contribute to the design of the interventions to tackle problems at individual institutions; address system-wide instability; and get credit flowing through the economy once more. These interventions share a common purpose of protecting the customers of financial institutions – people and businesses – from the consequences of financial instability and restricted access to credit.

2.9 This chapter provides a summary overview of these interventions (below). More detailed information about these interventions can be found in the following parts of this report:

- Control and governance implications (Annex B); and
- Detail and accounting implications (Section 2: Resource Accounts).

2.10 Additional information about each of these interventions may also be found within the websites of the respective managing organisations.

2.11 First, in dealing with **specific institutions** such as Northern Rock, HBOS and Bradford & Bingley, the action taken ensured that problems at one institution did not spread through the banking system, that no retail depositor in UK banks lost money and that borrowers were not unduly disrupted.

2.12 Second, decisive actions were taken as the global financial crisis raised **system-wide risks** in October 2008 to prevent the collapse of the banking system, and the massive costs that would have entailed for business and individuals, by comprehensively addressing the needs for liquidity, capital and funding. These actions included the:

- **Special Liquidity Scheme**[1] (to address illiquidity in financial markets);
- **Credit Guarantee Scheme**[2] (to provide government guarantees of eligible debt issuance);
- **UK Financial Investments Ltd**[3] (to manage government's investments in financial institutions on a commercial basis); and
- **Recapitalisation Measures** (to tackle the solvency of financial institutions).

2.13 Third, further action has been taken to limit the risks attached to banks' **existing assets**, through the:

- **Asset Protection Scheme** (to provide protection against future credit losses on certain assets, in exchange for a fee);
- agreeing quantified and legally-binding **lending commitments** with banks accessing state support (to support lending in the UK economy to benefit individuals and businesses);
- **Asset Backed Securities Guarantee Scheme** (to extend funding options open to banks and building societies under the existing CGS); and
- **Asset Purchase Facility** (to both address illiquidity through purchase of eligible private sector assets, and to support monetary policy – see box 2.B).

2.14 More detailed information on these interventions can be found within this report in the Resource Accounts (Section 2).

2.15 **The action taken since October 2008 has been successful in preventing the collapse of the financial system and ensuring that no retail depositors in UK banks or building societies lost money.** These interventions have supported the wider economy by protecting it from the worst costs of financial instability or bank failures, by providing the resources and certainty necessary for credit growth, and agreed commitments that will get credit flowing to creditworthy borrowers, and so support economic recovery.

[1] www.bankofengland.co.uk/publications/news/2008/029.htm
[2] http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about
[3] http://www.ukfi.gov.uk/

2.16 It will take time for the effective function of financial markets to be fully restored, but there seem to be some signs that steps to increase lending and confidence are affecting the availability of credit. The Bank of England's latest Credit Conditions Survey suggested a second consecutive increase in the availability of corporate credit in Q2 2009, and expectations of further easing in the next quarter.

(b) Macroeconomic support to the economy

2.17 In addition to stabilising the financial system, macroeconomic support to the economy is being provided, by both ensuring continued price stability through monetary policy, and by setting fiscal policy to support economic growth while ensuring sound public finances.

2.18 Price stability is a precondition for high and sustainable levels of economic growth and employment. Monetary policy remains the key tool for the management of demand in the economy and therefore **inflation** (DSO outcome 2a). Since the onset of the financial crisis, as economies have slowed sharply and commodity prices fallen, central banks around the world have cut policy rates to historically low levels to tackle the emerging risks of deflation. On 19 January 2009, with Bank Rate at a very low level, the Government established the **Asset Purchase Facility** (APF) as a further step to help increase the availability of corporate credit and to provide a framework for the Monetary Policy Committee (MPC) to use asset purchases for monetary policy purposes.

2.19 Since the 2008 Pre-Budget Report, the Governor of the Bank of England has written two open letters to the Chancellor, in December and March, as inflation remained more than 1 percentage point above target. However, the outlook for inflation in the medium term is now judged by the MPC to be weighed on the downside. The MPC has therefore taken further action to ease monetary policy. Bank Rate has been cut by a further 2½ percentage points since November, to ½ per cent. At its February meeting, the MPC decided unanimously to write to the Chancellor to request the use of the APF for monetary policy purposes – a process sometimes referred to as **quantitative easing** (see box 2.B).

2.20 The macroeconomic framework is designed to maintain long-term economic stability. Consistent with this, the Government's fiscal policy objectives are: over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy, and over the medium term, to ensure sound public finances and that spending and taxation should impact fairly within and between generations.

2.21 To support the economy during the downturn, the 2008 Pre-Budget Report announced a timely, targeted and temporary fiscal stimulus package worth around 1 per cent of GDP in 2009-10, including a temporary reduction in the rate of VAT to 15 per cent and bringing forward £3 billion of capital spending. The Budget 2009 announced further targeted support for those most affected by the downturn and to ensure a sustained and sustainable recovery, including measures to provide temporary support through the downturn for employment (DSO outcome 2c), investment and mortgage holders. In total, **the Government is delivering fiscal support worth 4 per cent of GDP in 2009-10 from measures announced in this Budget, the 2008 Pre-Budget Report and the operation of the automatic stabilisers.**

Box 2.A: The fiscal stimulus and Value-Added Tax

A temporary reduction in the rate of VAT was chosen as the main lever for the fiscal stimulus as it could be implemented very quickly, coming into effect only one week after the announcement of the measure in the 2008 Pre-Budget Report, and, being temporary, is expected to have a relatively powerful effect on demand by encouraging consumers to bring spending forward. The Institute for Fiscal Studies has estimated the VAT cut has a similar effect on the relative price of current consumption as a 1 per cent cut in interest rates, arguing *"this policy change is likely to be a reasonably effective economic stimulant"*.

2.22 To protect fiscal sustainability, essential for macroeconomic stability, the Government has set out clear plans to deliver a sustained fiscal consolidation over the medium term. These plans entail a return to cyclically-adjusted current balance and debt falling as a proportion of GDP by 2017-18, when the global shocks will have worked their way through the economy in full, consistent with the Government's temporary fiscal operating rule (see chapter 1).

2.23 In the near term, the negative effects of the steep downturn in global and domestic demand will dominate prospects for growth, with Budget prospects for 2009 revised down significantly since the 2008 Pre-Budget Report. The Budget 2009 economic forecast is for a contraction of 3½ per cent. GDP is forecast to contract sharply in the first half of 2009, to stabilise in the second half of the year, and to pick up progressively through 2010 and 2011 as credit conditions normalise and the effects of the macroeconomic support take hold.

2.24 CPI inflation is forecast to continue to ease through 2009, moving well below target by the end of the year, and to remain below target during 2010, though downward pressure on inflation is countered by monetary policy support taking hold. CPI inflation is forecast to return close to target during 2011 as the lagged effects of monetary policy easing are assumed to have their maximum impact.

(c) Supporting individuals and promoting fairness

2.25 In addition to the fiscal stimulus, which will help support employment across the economy, the Treasury is also responsible for developing policies to both improve incentives and means to work and ensure support for the very young and the elderly. The employment package announced at the PBR and extended in the Budget provided an extra £1.7 billion to ensure that the various employment programmes remain available as the rate of unemployment increases and that the Government continues to support those most at risk of long-term detachment from the labour market. (DSO outcome 2c). In its lead role on child poverty the Treasury implemented a new Pregnancy Grant and increases to the child element of the Child Tax Credit (CTC) and Child Benefit to help families more quickly. The Treasury recognises the importance of savings and in the Budget announced an extension to the level of subscription permitted into Individual Savings Accounts (ISAs). The Treasury has continued in its development of a fairer tax regime and this year introduced a higher rates on income tax and reduced the tax free thresholds of the wealthiest in society (DSO outcome 2b).

(d) Preparing for recovery

2.26 There remain issues that the Treasury Group will have to address in preparing for a successful recovery.

2.27 First, the global recession has triggered a restructuring of economies around the world. As the UK economy begins to recover and rebalance towards saving, investment and exports, private sector investment is likely to account for a larger proportion of economic growth. Moving forward, it will be crucially important to continue to build on the various reforms and investment programmes designed to enhance productivity growth in the long term (DSO outcome 2f).

2.28 Second, a systematic approach is required to prevent difficulties in the financial system happening again. It is also important that reforms tackle the decline in trust and confidence in financial markets, among consumers and wider market participants. The changing nature of financial markets, including the consolidation of the banking sector and the significant increase in state intervention, pose further questions. In May 2009 Treasury published "*UK international financial services – the future*" this document describes the Treasury's approach to the future of the financial markets and set out the actions necessary to achieve it.

2.29 Third, ensuring high quality public services continue to play a central role in supporting the UK's long-term growth and competitiveness, for example through support for employment and additional capital investment, will be crucial to a successful recovery. Investment and reform in public services has strengthened the ability of the economy to respond to the current economic challenges (e.g.

improvement of the skills base, investment in science and innovation, and improvements to transport infrastructure). Looking ahead, ensuring **value for money** of public services (DSO outcome 2d) will be necessary in order to improve the effectiveness of services, and drive out inefficiencies. The Operational Efficiency Programme and the Public Value Programme will help achieve value for money in public services.

2.30 Finally, sustained effort will be required to address the significant economic challenge represented by **climate change** (DSO outcome 2e), ensuring the long-term environmental ambitions of society are not jeopardised by short-term economic conditions. Investment in low-carbon sectors provides an opportunity to accelerate the transition towards a low-carbon economy by putting spare capacity in the economy to productive use, and creating and sustaining employment. The Treasury's work towards climate change was instrumental in the negotiation of a new EU Climate and Energy package. It has developed polices that will contribute to the UK's ambitious long-term environmental goals while supporting low carbon growth. The Pre-Budget Report 2008 introduced a green stimulus – ensuring part of the fiscal stimulus supports low carbon growth and jobs by accelerating £535 million of capital spending on energy efficiency, rail transport, and adaptation measures.

Performance assessment – DSO 2: Some progress

2.31 The following pages contain an assessment of the individual outcomes that, when taken together, constitute performance against DSO2. Each outcome is taken in turn, and an assessment given of whether progress has been made, and what the level of that progress is. A data statement is given, which clearly states what data is gathered on the outcome, and how this has enabled the Treasury to come to its assessment of progress. Commentary puts this performance into context, giving more information and detail, and finally there is a discussion of the overall risks to delivery of the outcome and the Treasury's future plans.

2.32 Taking performance against each of these outcomes together has enabled the Treasury to come to an assessment of performance against DSO2 in totality. The majority of the DSO2 outcomes are showing some progress, and, as set out above, the Treasury, even with the economy in recession has taken a number of steps to support a return to economic growth. The Treasury's assessment against DSO2 is that it has shown some progress over the period.

Assessment of DSO2 outcomes

DSO Outcome – 2(a) Supporting low inflation	
Overall Outcome Assessment	Met- Ongoing
Indicator	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 as measured by the 12 month increase in the Consumer Prices Index (CPI).
Assessment against indicator	Inflation is continually assessed
Data Statement	Consumer prices inflation (CPI) peaked at 5.2 per cent in September 2008 reflecting higher commodity and utility prices. As commodity prices have fallen, inflation has eased. CPI inflation was 2.2 per cent in May, whilst RPI inflation was –1.1 per cent.
Overall Outcome Commentary	The Treasury seeks to deliver this outcome by setting, implementing and enhancing its monetary policy framework, which 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 constraint of the inflation target and the open letter system. Since its introduction in 1997, the monetary policy framework has successfully delivered a sustained period of low and stable inflation as well as one of the lowest inflation rates in the G7. CPI inflation has averaged 1.8 per cent, which compares with 2.6 per cent in the US and 2.0 per cent in the euro area. The Treasury Select Committee noted that "the MPC deserves a significant amount of credit for ensuring that inflation over the last decade has been both lower, and less volatile, than in preceding decades"[4]. Since May 2008 and until recently, CPI inflation has exceeded the threshold above which the Governor of the Bank of England is required to write an open letter to the Chancellor, as set out in the remit for the MPC. The open letter system is an integral part of the monetary policy framework. As stated in the remit, the Governor is required to set out in the letter the reason why inflation has moved away from the target by more than 1 percentage point, the policy action the MPC is taking to deal with it, the period within which the MPC expect inflation to return to the target and how this approach meets the Government's monetary policy objectives. On each occasion, the Governor has, as required, written open letters to the Chancellor, which are published on the Bank of England website[5]. The Chancellor published responses at the same time[6].

[4] The Monetary Policy Committee of the Bank of England: ten years on, Treasury Select Committee, July 2007 (www.publications.parkiament.uk/pa/cmselect/cmtreasury/299/299.pdf)
[5] http://www.bankofengland.co.uk/monetarypolicy/inflation.htm
[6] http://www.hm-treasury.gov.uk/ukecon_mon_index.htm

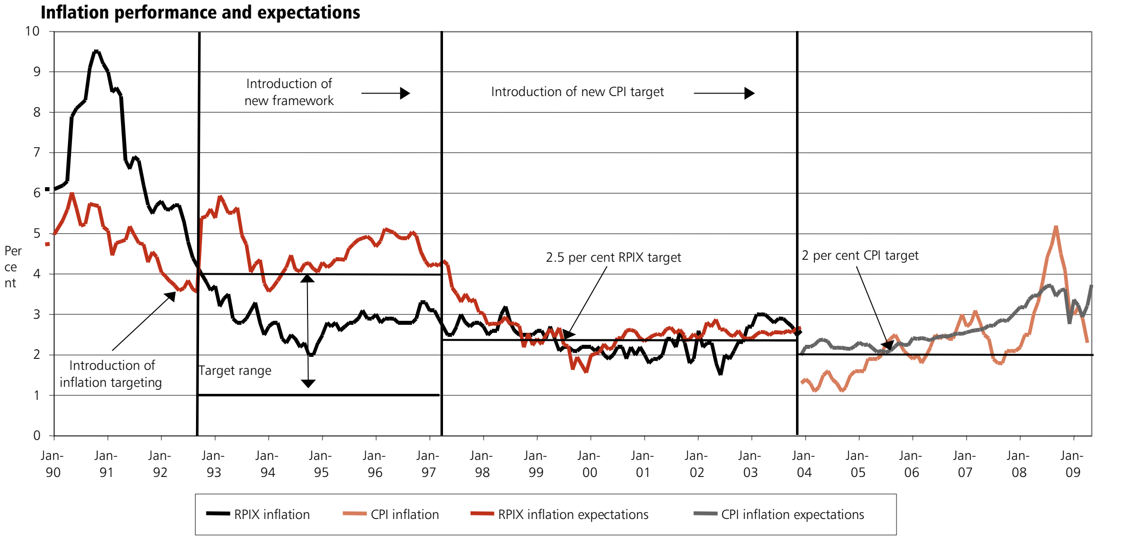
The current (June) average of independent forecasts for CPI inflation for 2009 Q4 is 1.0 per cent and for 2010 Q4 is 1.6 per cent. The Governor stated in his March open letter to the Chancellor, "Inflation is expected to fall to below the 2 per cent target by the second half of the year, reflecting waning contributions from retail energy and food prices and the direct impact of the temporary reduction in Value Added Tax."[7]. Inflation expectations appear to have remained anchored, testament to the credibility that the monetary policy framework has built since 1997.

The MPC's forward-looking approach has been a cornerstone of economic policy since 1997. The Chancellor, in his response to the Governor's March 2009 open letter, underlined that the Government will continue to support the MPC in the decisions it takes, consistent with the monetary policy objectives set out in the remit.

In March 2009 the Chancellor announced the appointment of Professor David Miles to the MPC. The appointment, which was made in accordance with the new process for external MPC appointments announced by the Chancellor in June 2008, took effect on 1 June 2009 following the departure from the MPC of Professor David Blanchflower on 31 May 2009.

The Chancellor announced that Professor Tim Besley would step down from the MPC when his term expires on 31 August. His position was advertised in national media in April 2009 and the Chancellor announced on 16 June 2009 that Adam Posen has been appointed to succeed Tim Besley as an external member on the Monetary Policy Committee.

Inflation performance and expectations



1 Implied expectations of average RPI inflation ten years ahead are derived from the difference between yields on nominal and index-linked government bonds. Implied CPI inflation expectations are derived from these RPI expectations and stylised assumptions about expected differences between RPI and CPI inflation in the medium term, including that the geometric averaging lowers CPI inflation by 0.5 percentage points relative to RPI inflation.
Source: ONS, Bank of England and HM Treasury.

Inflation Performance 2008-09				
	2008 Q2	2008 Q3	2008 Q4	2009 Q1
Average CPI (per cent)	3.4	4.8	3.9	3.0

Quality of Data Systems

The CPI data are sourced from the Office for National Statistics (ONS). The Treasury supports continuing work by the ONS towards incorporating housing costs into the CPI measure of inflation.

[7] http://www.bankofengland.co.uk/publications/news/2009/008.htm

Risks to Delivery	The remit for the MPC states that "the actual inflation rate will on occasions depart from its target as a result of shocks and disturbances. Attempts to keep inflation at the inflation target in these circumstances may cause undesirable volatility in output". Inflation will be subject to a number of strong forces over the next few years, with the large negative output gap exerting significant downward pressure on prices and wages, while the lagged effects of sterling's depreciation will put upward pressure on import costs, and monetary policy remains extremely supportive. Very low interest rates are also having a significant impact on the RPI measure of inflation, which includes mortgage interest payments. CPI inflation is forecast to continue to ease through 2009, moving well below target by the end of the year as the downward pressure from increasing spare capacity and lower energy prices more than offsets upward pressure from the pass-through of higher import prices. CPI inflation is forecast to return close to target during 2011 as the lagged effects of monetary policy easing are assumed to have their maximum impact.
Future Plans	The Government will continue to monitor the monetary policy framework to ensure it remains at the forefront of international best practice. Changes to the framework are implemented only when clear advantages can be established from doing so. That is the principle that has guided ongoing policy development in this area since 1997 and will continue to be the guiding principle going forward. Regarding appointments to the MPC, the Treasury will, as far as possible, publish a timetable in sufficient time to announce details of whom the Chancellor has decided to appoint, consistent with allowing the Treasury Select Committee three months for their pre-commencement hearings. The Chancellor set out measures to strengthen the procedure for future appointments to the MPC in a letter to the Treasury Select Committee in June 2008. These included a commitment to advertise vacancies for the Governor and Deputy Governors of the Bank of England and also for external members of the MPC, consistent with the principles of open competition. Further details are set out in the Chancellor's letter to the Treasury Select Committee[8].

[8] http://www.hm-treasury.gov.uk/d/letterchx_treasuryselectcommittee190608.pdf

Box 2.B: Asset Purchase Facility

With Bank rate at a very low level, the Government established the Asset Purchase Facility (APF) as a further step to help increase the availability of corporate credit and to provide a framework for the MPC to use asset purchases for monetary policy purposes, in keeping with the Bank of England's remit to "maintain price stability"[9].

The Chancellor authorised up to £150 billion of purchases, of which up to £50 billion should be used to purchase private sector assets. The instituted arrangements for the APF maintained the principles of full operational independence, openness, transparency and accountability that have been important features of the monetary policy framework. The MPC will vote each month on the amount of asset purchases it judges necessary to meet the inflation target. It will continue to vote on the appropriate level of Bank Rate.

Using the APF, the MPC is able to ease policy further by injecting money into the economy. It does so through the purchase of securities issued by the private sector or the Government with central bank money. That raises the money holdings of the private sector. As investors buy other assets with those money holdings, that should lower the yield of those assets, therefore reducing the cost of finance. Over time, a lower cost of finance should encourage firms to raise capital to pursue profitable opportunities. In turn, this process should stimulate demand in the economy, ensuring that the inflation target can be met.

Further detail about the open letters and the request for permission made by the Governor of the Bank of England in January 2009 to utilise the Asset Purchase Facility may be found on the Treasury's website[10].

[9] http://www.hm-treasury.gov.uk/d/chx_letter_220409.pdf
[10] http://www.hm-treasury.gov.uk/ukecon_mon_index.htm

DSO Outcome – 2(b) Promoting efficiency and fairness of the tax system	
Overall Outcome Assessment.	Some Progress
Indicator	Impact of policy measures on taxpayers.
Assessment against indicator	Improvement
Data Statement	During 2008-09 a number of measures have been introduced (or are in the process of being introduced) that enhance the fairness and efficiency of the UK tax system. These include: providing additional support for low and middle-income households; fiscal consolidation in the medium term that is both broad-based and ensures those who can afford to make a greater contribution do so; a fairer distribution of pensions tax relief; and improving the efficiency of the tax system and making the UK more competitive.
Overall Outcome Commentary	The 2008 Pre-Budget Report announced changes to personal tax allowances and a new 45 per cent additional rate of tax for income above £150,000. The 2009 Budget built on these reforms by: making additional changes to personal tax allowances for those with higher incomes; replacing the 45 per cent rate of income tax with a 50 per cent rate; restricting tax relief on all pension contributions and pension rights accrued for those with incomes of £150,000 and over; and setting out a range of measures to protect tax revenues from evasion and avoidance. The Treasury has continued to enhance and promote fairness and efficiency in the tax system through a series of comprehensive measures that deliver: • future fairness by confirming additional support for low and middle-income households, PBR 2008 confirmed that the £600 increase in the personal allowance announced on 13 May 2008 will be maintained for all basic rate taxpayers, while the personal allowance will be increased by £130 above indexation for 2009-10 and 2010-11. Over the longer term the decisions taken in PBR 2008 will ensure that from 2011-12, some 23 million taxpayers with incomes below £40,000 will have an average tax cut of £155 a year. In addition, further support will be provided through increasing the point at which individuals start paying National Insurance Contributions (NICs) and aligning it with the Income Tax personal allowance from April 2011; • fair fiscal consolidation in the medium term that is both broad-based and ensures those who can afford to make a greater contribution do so. The increase in employer, employee and self employed NICs rates, announced in PBR 2008, of 0.5 per cent from April 2011 is spread between employers and individuals, and over all sectors. Those with state pensions, and most of those who rely on fixed incomes, do not pay NICs, and will be unaffected by these changes. The introduction of a 50 per cent rate of tax band for those with income above £150,000 announced in Budget 2009 and restricting the personal allowance for income over £100,000 from 2010, will ensure those with the highest 1-2 per cent of incomes will contribute most; • a fairer distribution of pensions tax relief by, from April 2011, restricting tax relief on all pension contributions and pension rights accrued for those with incomes of £150,000 and over. Budget 2009 announced that such relief will be tapered away, so that for incomes over £180,000 it is worth 20 per cent, the same as to a basic rate taxpayer. This addresses the situation where the 1.5 per cent of pension savers with the highest incomes receive a quarter of all tax relief on pension contributions (£6.1 billion). Otherwise the personal changes announced in parallel in Budget 2009 would have further intensified the concentration of pensions tax relief on those with the highest incomes ; and

	• **greater protection of tax revenues** against evasion and avoidance, and a modern framework for HM Revenue and Customs powers. Tax evasion and avoidance undermine fiscal sustainability, damage the delivery of policy objectives, impose significant costs on society and shift a greater tax burden on to ordinary taxpayers. Budget 2009 announced a package of measures: to tackle those who seek to evade tax (including a disclosure exercise for the holders of offshore bank accounts and legislation to publish the names of deliberate tax defaulters); to close down a number of avoidance schemes; and to ensure that large tax payers take responsibility and accountability for paying their fair share of tax (by placing a duty on senior accounting officers of the largest companies to sign off on tax computations). Budget 2009 also announced the publication shortly of a consultation on a draft tax code of practice for the banking sector. In addition, steps are being taken to improve the competitiveness of the UK by simplifying the rules for the taxation of foreign profits. A package in Finance Bill 2009 that includes an exemption from UK tax for most foreign dividends, removing the complicated tax with credit system and a continued commitment to reform the Controlled Foreign Corporation (CFC) rules aim to go further to improve the competitiveness of the UK, and will ensure a fair and stable tax regime for taxing overseas subsidiaries.
Quality of Data Systems	Performance against this target is assessed against the evolution of the tax system over time.
Risks to Delivery	A further weakening in the tax yield, requiring additional fiscal consolidation in a way that poses issues for equity & fairness.
Future Plans	The Treasury will continue to examine and explore scope for further changes to enhance the efficiency and fairness of the tax system.
Link to CSR07 PSAs	PSA6 – Deliver the conditions for business success in the UK. PSA7 – Improve the economic performance of all English Regions and reduce the gap in economic growth rates between regions. PSA8 – Maximise Employment Opportunity for all.

DSO Outcome – 2(c) Improving incentives and means to work; supporting children & pensioners and helping people plan and save for the future	
Overall Outcome Assessment	Not yet assessed
Indicator 1	Increase in the employment rate of the working age population.
Indicator 2	Number of children in relative low-income households (less than 60 per cent of median income before housing costs).
Assessment against indicators	
Indicator 1	Not yet assessed
Indicator 2	Not yet assessed
Data Statement	
Indicator 1	The baseline employment rate was 74.9 per cent in Q2 2008. The latest GB employment rate is 73.5 per cent (February - April 2009). The target will be measured taking account of the economic cycle.
Indicator 2	Data on the number of children in relative low income households in this CSR period will not be published until HBAI 2010. Around a further 500,000 children are expected to be lifted out of relative poverty as a result of measures already announced.
Overall Outcome Commentary	In December 2008, 1.8 million working families and 425,000 working households were benefiting from the Working Tax Credit, which provides financial support to working households on low incomes. From April 2009 the National Minimum Wage adult rate provides, with WTC and other benefits, a guaranteed income of at least £305 per week for families with one child and one full time worker. The labour market has entered the downturn from a position of strength. Reforms over the past 10 years have given rise to an open, dynamic and flexible labour market, which is responding well to the downturn. Building on both the fiscal stimulus, which will help support employment across the economy and the £1.3 billion employment package announced at PBR 2008, Budget 2009 announced a further package of help for individuals. This includes an additional £1.7 billion to be set aside for the DWP to ensure Jobcentre Plus and Flexible New Deal programmes have the capacity to respond effectively to rising unemployment and that the Government continues to support those most at risk of long–term detachment from the labour market. The Budget 2009 announced a jobs package giving a guaranteed offer of a job, work placement or work-focused training for all 18-24 year olds who have claimed Jobseeker's Allowance for 12 months. This will include 100,000 additional jobs through the newly created Future Jobs Fund, 50,000 traineeships in the care sector, through Care First, and a further 50,000 traineeships in other key sectors. Work-focused training and a Community Task Force programme will also be available. The Budget 2009 also announced funding for an additional 50,000 jobs for people aged 25 and over in areas of high unemployment across the country. These will also be made available through the Future Jobs Fund. The Budget 2009 also provided additional employment opportunities through further investment in the UK's infrastructure and also sets out measures to support businesses and the people working in them.

	Eradication of child poverty by 2020 requires sustainable progress in improving children's life chances for the longer term. The Government has shown its commitment to this by introducing the Child Poverty Bill. The Bill sets out targets, proposes a clear accountability framework and an expert commission. Legislation will drive action towards a fairer society where children have the opportunity to achieve their potential. The responsive and flexible tax credits provide an average £3,600 a year to six million families, benefiting ten million children. The 2008 PBR built on this by bringing forward the increasing of the child element of the Child Tax Credit (CTC) and Child Benefit to help families more quickly. It also confirmed that in April 2009 the Health in Pregnancy Grant will be introduced at a value of £190 for all women after the 25th week of pregnancy. Budget 2009 announced the child element of the Child Tax Credit will increase by an additional £20 a year above indexation from April 2010 and also that there will be an amendment to the law to make clear that from 31 July 2009 the current four-week run-on of entitlement to WTC also covers the childcare element, worth on average £68 per week, including for couples when only one partner stops working.
Quality of Data Systems	Performance against the employment indicator is measured by using the seasonally adjusted employment rate (the proportion of the population of working age (16-59 for females and 16-64 for males) who are in employment) in Great Britain (GB), based on the International Labour Organisation (ILO) definition. This is the employment indicator in the Employment PSA8. Performance against the relative child poverty indicator is assessed using the annual Households Below Average Income (HBAI) report[11] published as National Statistics by DWP. There is an ongoing time lag in the statistics so that the most recent 2007-08 report was not published until May 2009. The next publication, containing the 2008-09 data (i.e. data for the 2007 CSR period) is due for publication in 2010.
Risks to Delivery	Economic downturn will put increased pressure on Jobcentre Plus and welfare to work programmes. The Treasury continues to work with DWP on monitoring and improving Jobcentre Plus performance, and assessing the potential pressures on delivery under a sustained increase in the claimant count ensuring there is the appropriate balance between plans for tackling economic inactivity and the need to maintain low levels of unemployment. It is possible that child poverty targets could become more challenging because of a) rising parental worklessness as a result of the downturn; and b) parental incomes falling and parents not claiming all of the financial support on which they are entitled to rely. To mitigate these risks, DWP are taking steps to help maintain employment and Government is taking action to ensure that families claim all the support to which they are entitled.
Future Plans	The Government will implement the employment policies that have been committed to at the Budget. The Treasury will continue to pursue its welfare reform agenda. To drive continued progress, the Government has introduced the Child Poverty Bill and is continuing to develop the strategy to 2020 and beyond.
Link to CSR07 *PSAs*	PSA8 – Maximise Employment Opportunity for all. PSA9 – Halve the number of children in poverty by 2010-11 on the way to eradicating child poverty by 2020.

[11] www.dwp.gov.uk/asd/hbai.asp

DSO Outcome – 2 (d) Improving quality and value for money (VFM) of public services	
Overall Outcome Assessment	Not yet Assessed
Indicator	Progress in delivering on PSA commitments.
Assessment against indicator	Not yet Assessed
Data Statement	Departments reported for the first time on their PSA commitments in their 2008 Autumn Performance Reports. Around 10 per cent of PSAs showed strong progress, around 30 per cent some progress and nearly 60 per cent not yet assessed. This data represents the baseline from which future performance against this indicator will be assessed.
Overall Outcome Commentary	This outcome seeks to achieve measurable increases in outcomes in all the Government's priority areas over the CSR2007 period, reflecting a significant improvement in the quality of public services. In addition to driving improvements at the front line, the government is committed to improving value for money so that every pound of investment will deliver more. Departments are responsible for ensuring delivery of their PSAs, DSOs and VfM commitments. The Treasury's role is one of support and challenge in helping them to deliver. The Prime Minister's Delivery Unit (PMDU) in the Treasury continues to work closely with departments to help unblock specific barriers to delivery and share best practice, ensuring that the right conditions are in place for successful delivery of the PSA. On improving the value for money of public services, Government has delivered £26.5 billion of savings against a target of £21.5 billion during the 2004 Spending Review period, and Departments and Local Authorities are already working to deliver the CSR07 value for money target of £35 billion. Launched at Budget 2008 the Operational Efficiency Programme (OEP) has succeeded in identifying significant potential for savings through operational efficiencies in back office operations and IT, collaborative procurement, asset management and sales, property and local incentives and empowerment across the public sector. The Public Value Programme (PVP) focuses on major areas of spend to identify smarter ways of operating and key policy reforms. The PVP has already identified significant savings, for example health PVPs on commissioning and tariff could save billions of pounds a year by 2013-14 through improving NHS planning and skills. The 2008 PBR announced that, building on the findings of the OEP and PVP, the government will deliver an additional £5 billion of VfM savings in 2010-11, increasing the CSR07 VfM target from £30 billion to £35 billion.
Quality of Data Systems	High quality data systems are integral to successful delivery of the PSAs. PMDU is working closely with departments to ensure their data systems are suitably robust and recognises that in some cases there is work required to ensure they are fit for purpose. The National Audit Office is conducting an independent evaluation of PSA data systems across the PSA set.
Risks to Delivery	Departments are unable to deliver the scale and pace of progress needed to improve outcomes as set out in the PSAs.
Future Plans	Departments are working to meet commitments set out in their Public Service Agreements and will report on progress in their own APRs and Spring Departmental Reports. Future Treasury assessments of this DSO outcome will be made twice yearly in spring Annual Report and Accounts (ARAs) and APRs.

Outcome – 2 (e) Supporting fair, stable and efficient financial markets	
Overall Outcome Assessment	Some Progress
Indicator 1	Assessments of UK financial stability and risk management against international comparisons.
Indicator 2	Competitiveness of the UK's system for financial regulation.
Indicator 3	Financial capability and financial inclusion.
Indicator 4	Helping to manage the risk from financing of terrorism.
Assessment against indicators	
Indicator 1	Improvement
Indicator 2	Improvement
Indicator 3	Improvement
Indicator 4	Improvement
Data Statement	
Indicator 1	Global financial markets are experiencing an exceptional period of instability. The action taken by the Government since October 2008 has been successful in preventing the collapse of the financial system and ensuring that no retail depositors in UK banks or building societies lost money.
Indicator 2	The Government has been involved in successfully negotiated EU-level dossiers on financial regulation and is taking steps to review domestic financial regulation, for instance through the outcome of the Turner Review.
Indicator 3	Government is taking steps to mainstream financial inclusion work and has taken specific actions such as launching the Money Guidance pathfinder.
Indicator 4	A range of measures have been taken by a large number of stakeholders across Government and the private sector to address the risk from terrorist financing
Overall Outcome Commentary	Financial Stability Global financial markets are experiencing an exceptional period of instability. This has affected financial institutions around the world, and resulted in government interventions in many countries, with public sector capital injections of over $550 billion across America, Europe, and Asia, and with government schemes to deal with problem assets being introduced in the United States and a number of European countries. The UK Government's interventions have been targeted at tackling problems in individual institutions, addressing system-wide instability, and getting credit flowing through the economy once more. These interventions share the common purpose of protecting the customers of financial institutions - people and businesses - from the consequences of financial instability and restricted access to credit. See the introduction to this chapter for more detail on the particular actions taken. Actions to address the issues developing from this instability need to be undertaken globally and the Government is leading on this work in the G20 and other international fora. Reporting on DSO 2(h) gives details of the specific actions being taken on the international stage.

The Government has also been working with the financial and professional services industries to examine the medium to longer term challenges and opportunities facing these sectors. The Professional Services Global Competitiveness group and Financial Services Global Competitiveness group reported in March and May 2009 respectively, and set out a series of policy considerations for the Government and the industry to address. Further Government-industry groups involving stakeholders from the insurance and asset management industries will also report in the coming months.

A well-regulated financial sector is important for maintaining trust and confidence in the sector, which enhances London and the UK's financial services competitiveness in the longer-run. The powers in the Banking Act 2009 further strengthen the UK framework for maintaining financial stability.

Competitiveness of the UK’s system for financial regulation.

At the Chancellor's request, Lord Turner, Chairman of the FSA, completed his review on the banking crisis; “*The Turner Review: a regulatory response to the global banking crisis*” [12] published by the FSA in March 2009. On 8 July 2009, the Government published “Reforming Financial Markets”, which includes a commentary on the Turner Review.

Successful negotiations have been completed on the CRD (capital requirements directive for banks) and Solvency 2 directive (which updates existing prudential regulation for insurers and on deposit guarantees). These framework directives will ensure high regulatory standards, appropriate protection for consumers, and the maintenance of a robust and competitive financial services industry in the UK. High standards in relation to payments and money transmission have also been supported with directives agreed on regulation of payments services, and cross-border payments in euro and e-money.

The UK has been involved in a number of European financial services dossier negotiations with the aim of supporting the single market and ensuring high regulatory standards for UK and international firms.

Financial Capability

The Treasury and the FSA published an action plan for financial capability in July 2008. The action plan set out a range of programmes to help people make confident, informed financial decisions so that they manage their finances well, avoid problem debt and prepare for the future.

It set out the Treasury and FSA’s plans, in response to the Thoresen Review of generic financial advice, for the Money Guidance pathfinder, which was subsequently launched in the North West and North of England on 14 April[13]. The service aims to reach up to 750,000 people over one year, to help them make confident, informed financial decisions. Progress is being monitored and evaluation is underway to assess the effectiveness of the service. If shown to be effective, national rollout of the service will begin in 2010. It also set out progress against the Government’s aim that every child has the benefit of financial education in school: since September 2008, financial education has a more secure role in the secondary curriculum, supported by a £11.5 million package to embed these curriculum reforms. The Treasury is also working with DCSF to make financial capability a statutory part of the secondary curriculum in England, as announced in October 2008.

[12] www.fsa.gov.uk/pubs/other/turner_review.pdf

[13] http://www.hm-treasury.gov.uk/press_36_09.htm

	Financial Inclusion The Government committed £130 million to its Financial Inclusion Fund between 2008-11 to continue to deliver financial inclusion services across the country. However, the impact of the recession is likely to put more people at risk of financial exclusion making this area of policy more important than ever, and PBR 2008 committed a further £15.85 million and Budget 2009 an extra £18.75 million to the Financial Inclusion Growth Fund and an extra £270 million to the Social Fund, to 2011. Recent analysis suggests a significant reduction in the un-banked since 2002-03 with numbers falling from 2.8 million to 1.9 million people. The Face to Face money advice project has helped over 219,000 people since April 2006 and the Growth Fund has made over 160,000 affordable loans since July 2006. The Government is now taking the first steps towards mainstreaming financial inclusion work, engaging across Whitehall, with stakeholders in the financial inclusion community and with other key players such as local government and housing associations. **Managing the risk from terrorist financing.** Measures taken over the past year to manage the risk from terrorist financing include: • taking new powers in the Counter Terrorism Act 2008; • refreshing the terrorist finance strategy to align it more closely with the UK Counter Terrorism strategy (CONTEST) and devise a new terrorist finance delivery programme; • conducting a number of terrorist finance threat analyses to understand better the risks the UK faces and the information gaps that need to be addressed; • developing an international terrorist finance strategy and establishing a bilateral programme of actions in priority countries; • working through the Financial Action Task Force and other multilateral fora to ensure international standards on terrorist financing are met; and • implementing measures to protect vulnerable sectors in the UK such as the voluntary/charity sector and money service businesses. Practical measures to improve collaboration with the private sector remain a priority.
Quality of Data Systems	**Financial Stability** Financial stability is not easy to measure through any one set of indicators. However, the Treasury, along with the Bank of England and the FSA, uses a broad range of market indicators and financial statistics to assess developments and conditions in financial markets, both in the UK and abroad. **Financial capability** For the Money Guidance pathfinder, the Treasury is working with the FSA to ensure robust evaluation which will inform and support decisions on national rollout. Evaluation of the Money Made Clear campaign is currently underway to assess its effectiveness and impact – this will inform our work on the pathfinder. The Treasury is working with DCSF on evaluation of the £11.5 million package of support for financial education in schools. Financial capability seeks to achieve behavioural and attitudinal shifts and this is measured through an extensive survey of financial capability conducted by the FSA every 5 to 6 years. A baseline survey was published in 2006 and the Treasury is working with the FSA on the next survey, due in 2011.

	Financial inclusion Strong access to banking is measured through the Family Resources Survey data and can be cross-checked with industry data. Management information for all major projects is reported quarterly showing client numbers and the prevalence of financial exclusion issues. Each project is subject to independent evaluations. Progress is also overseen by the Financial Inclusion Taskforce, who reported on progress at Budget 2009. The Taskforce has a significant research budget at their disposal to improve data in this area. Managing the Risk from terrorist financing It is difficult to measure both the risk posed by terrorist financing and the impact of the actions taken to address the risk. Further work is planned to develop appropriate metrics for the terrorist finance delivery plan in 2009 which should provide for better quality of data systems for future reporting.
Risks to Delivery	Key risks include: • systemic firm-specific or sector-wide failure; • systemic firm-specific or sector-wide major operational disruption to business operation (eg pandemic flu); and • stabilisation interventions failing to achieve desired macro outcomes. These are being mitigated through ongoing contingency planning; due diligence on assets identified for inclusion in the Asset Protection Scheme; and UK Financial Investments Limited (UKFI) managing the Government's financial investments (see chapter 5 for more information on UKFI, and its management of the financial investments). The main risks concerning counter terrorism measures are that the new delivery plan will not secure a reduction in terrorist financing and that key actions identified in the delivery plan are not delivered. The Treasury will work closely with the Home Office to ensure coordination with all key stakeholders, to direct resources to priority actions, and to secure and develop private sector engagement.
Future Plans	The Government will continue to do whatever it takes to maintain financial stability through its objectives to ensure stability and restore confidence in the financial system, protect retail depositors' money and safeguard the interests of taxpayers. The Government will build on the agreements in the G20 and other international fora to progress international solutions. The Government recognises the need to reform financial regulation in the UK and across the world. A Treasury discussion paper on financial regulation is due before summer 2009 addressing the issues of renewing financial regulation, reducing the impact of the failure of financial firms, protecting and supporting consumers, improving efficiency and competition in financial markets, and strengthening regulators and the international regulatory framework. This will be informed by a number of expert sources, including the Turner Review and by European and international discussions, such as those being held by the G20 and by European Finance Ministers. The Terrorist finance delivery plan for 2009-10 will focus on preventing money being raised and used for attack planning in the UK and against UK interests; and disrupting the flows of moneys to terrorist groups through the financial system and informal transmission methods.

Better Regulation

The Treasury is committed to the principles of better regulation. More than ever, given current uncertainty in global financial markets, financial regulation needs to be effective, promoting stability and maintaining consumer protection while remaining appropriately targeted and proportionate. Recent events in international financial markets have highlighted the need to strengthen financial stability to improve the oversight of capital, liquidity and risk and to increase transparency. The Better Regulation principles of ensuring that there are no unnecessary or outdated regulatory burdens continue to be relevant in this environment, as is the Treasury's role in helping to promote Better Regulation across government.

Simplification and Administrative Burden reduction

The Treasury and OGC's third simplification plan was published in December 2008, and outlines the progress made so far against our target to reduce the administrative burden of regulation by 25 per cent by May 2010. The Treasury has already exceeded this target by delivering a 66 per cent reduction in the administrative burden of our regulation. For instance the Treasury has removed a requirement for paper settlement and transfer of share titles which was costly to fund managers, stockbrokers, financial advisers and other intermediaries, and made provision for electronic settlement of trades which provides a significant benefit to the industry. The Treasury has also delivered a legislative reform order, which modernised the operation and governance of Lloyd's of London. Measures taken to reduce administrative burdens help businesses by making it easier to comply with the law without removing the vital protections that the regulations provide.

Consultations and Impact Assessments

In line with wider Government commitments the Treasury uses Impact Assessments when developing policy to determine which potential options will best meet our objectives, while minimising costs and maximising benefits. Draft Impact Assessments are consulted on at the same time as policy proposals, and final versions are published at the end of the policy process. The Treasury launched 26 consultations between 1 April 2008 and 31 March 2009. There were a further 6 consultations launched between 1 April and 30 June 2009. These documents are available on the Treasury website.

Better Regulation across Government

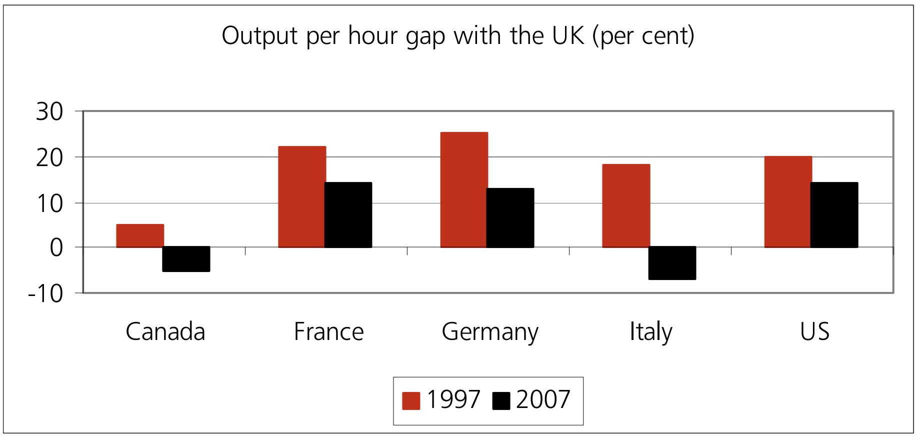
Simplification Plans published across Government in December 2008 show that Departments are on track to reduce the administrative burdens of regulation by 25 per cent between 2005 and 2010, saving business £3.4 billion per year.

Future Plans

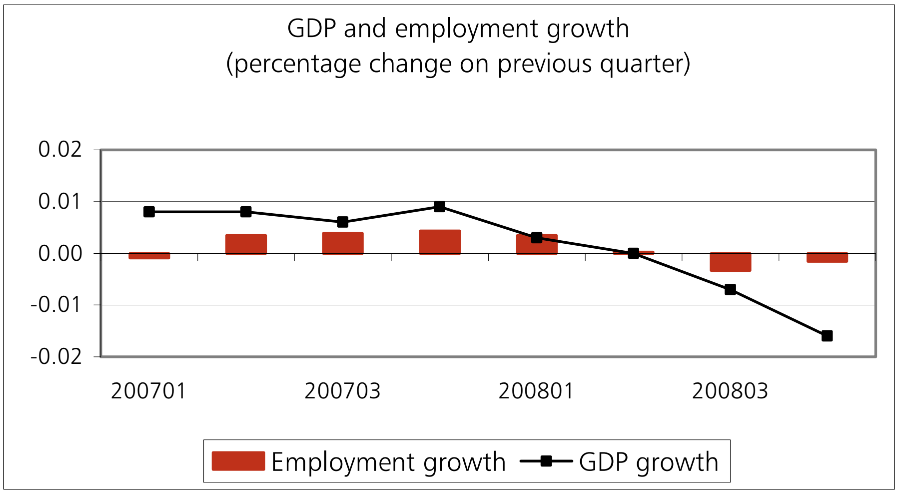
The Government has announced that it will establish a new regulatory management framework, which will include a sub-committee of the NEC and a new advisory panel, the Regulatory Policy Committee. The Government has committed to regularly publishing its forward programme of regulation to increase the transparency of the regulatory process, and to set further targets for simplifying regulation between 2010 and 2015. The Government will also be working closely with EU partners to further embed the EU better regulation agenda and to ensure the current pressures on business are taken into account when new European regulation is being considered.

Outcome – 2 (f) Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions.	
Overall Outcome Assessment	Some Progress
Indicator 1	Trend growth in output per worker (productivity) over the economic cycle.
Indicator 2	International comparisons of output per worker and per hour worked.
Indicator 3	Regional Gross Value Added (GVA) per head growth rates in each region and between the best and worst performing regions.
Assessment against indicators	
Indicator 1	Improvement
Indicator 2	Improvement
Indicator 3	Improvement
Data Statement	
Indicator 1	Outcome was 2.4 per cent per year over the last economic cycle (1997H1-2006H2), compared to 1.9 per cent per year over the preceding cycle (1986Q2-1997H1). Trend growth in output per hour worked (productivity) was an estimated 2.4 per cent per year over the last economic cycle (1997H1-2006H2), compared to an estimated 1.9 per cent per year over the preceding cycle. From 2006H2 onwards, the trend rate of productivity growth is projected to be slightly lower, at 2.3 per cent per year. However, this projection should be interpreted with caution, as trend productivity growth can only be precisely assessed over a full or half economic cycle.
Indicator 2	The gap in output per hour worked has been narrowed with every nation in the G7 since 1997. The gap in output per worker has been narrowed with every nation in the G7 except the US, with which the UK has maintained pace, since 1997. Since the start of the last economic cycle in 1997, the UK has narrowed the productivity gap with its main comparators. On an output per hour worked basis, the gap has been narrowed with every nation in the G7 (while the gap with Canada and Italy has been closed altogether). On an output per worker basis, the gap has been narrowed with every nation in the G7 except the US, with whose performance the UK is the only G7 nation to have kept pace.
Indicator 3	There are two parts to the indicator for regional GVA per head growth rates. Between 2002-2007, five regions (North East, North West, East Midlands, East of England and London) improved on baseline (1990-2002) performance and four regions (Yorkshire and Humber, West Midlands, South East and South West) saw weaker growth compared to the baseline period. Improvement has occurred.

	The first part of the target is based on individual growth rates of regions. Between 2002 and 2007 North East, North West, East Midlands, East of England and London have all improved on their performance compared with the baseline period, 1990-2002. Yorkshire and Humber, West Midlands, South East and South West have not grown sufficiently to exceed their baseline growth rate. The South East would have to grow at much higher rates than in the past to achieve its baseline performance. Data will be reported again at the Treasury's 2009 APR. The second part of the target is the gap in growth rates between regions. The difference in growth rates between the Greater South East (London, the South East and the East) and the other six regions had halved from 0.6 per cent real GVA per head between 1990-2002 to 0.3 per cent in 2002-2006. As such improvements have been achieved, however, data revisions and recent updates indicate that the gap between 2002-2007 has widened to 0.5 per cent.
Overall Outcome Commentary	The UK has had a long-standing and well-documented productivity gap with its major comparator countries. However, as the chart below demonstrates, good progress has been made in narrowing the productivity gap since 1997.



Recent data shows productivity growth has turned negative. However, this is not unexpected. Productivity growth tends to be pro-cyclical: declining when GDP growth slows, and rising when GDP growth picks up. The reason for this is that it takes time for firms to adjust the size of their existing workforce when demand begins to rise or fall. This affects the amount of output that each worker produces, which naturally has an effect on productivity. The chart shows that as GDP contracted in the second half of 2008, employment growth contracted by a lesser extent. This naturally decreases output per worker in the economy (productivity).

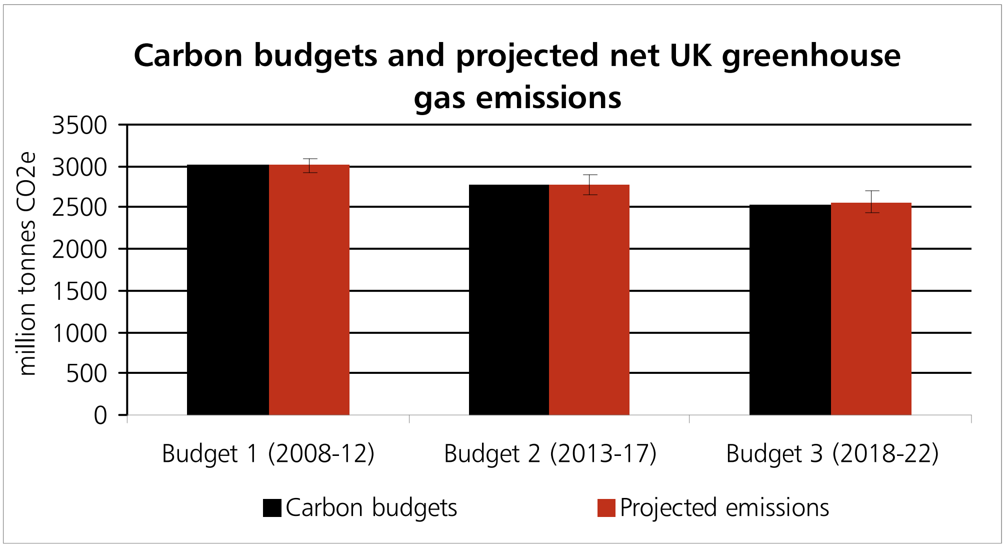


	Therefore, it is important to measure productivity growth over the duration of the economic cycle, in order to strip out cyclical distortions. Going forward, the Treasury projects output per hour worked (productivity) to grow at an average rate of 2.3 per cent per year over the current cycle. Although this is a slightly lower rate than over the previous economic cycle, it remains higher than over any past complete economic cycle preceding the last one. Raising productivity during a period of recession will be a difficult task. *Building Britain's Future: New Industry, New Jobs* published by the Government on 20 April 2009, sets out the strategic vision for preparing for recovery and developing the UK's competitiveness. In addition, Budget 2009 continues to support productivity growth under the five drivers of productivity: competition; enterprise; innovation; skills; and investment. The top level success measure for this DSO outcome will be the progress made against the PSAs to which it contributes. To demonstrate further progress against these long term objectives, action over the Comprehensive Spending Review 2007 period and beyond will be underpinned by the five drivers of productivity; which form the basis of the Government's overarching productivity framework. Policy will be set to support improvement in these areas.
Quality of Data Systems	Productivity gap data are published by the Office for National Statistics (ONS). Estimates of trend productivity growth over the economic cycle are produced by the Treasury and published at Pre-Budget Report and Budget. The methodology for dating the economic cycle is audited by the National Audit Office. The regional GVA series is produced annually by the ONS and meets all National Statistics quality criteria. The ONS is working to strengthen regional GVA data, including production of a real regional GVA series. To improve and develop regional estimates, the ONS is also involved in an ongoing quality assurance process of the input data used to calculate estimates of regional GVA. The ONS will publish their findings in due course.
Risks to Delivery	The risks to delivery will increase as the recession deepens; fiscal interventions do not create the long term positive effects anticipated.
Future Plans	The Department for Business, Innovation and Skills (BIS) will lead on work to analyse the impacts of investment uncertainty on productivity; and undertake research to address existing gaps in our evidence base around productivity. BIS will also develop the ability of the productivity PSA to gauge how businesses are engaged throughout the delivery system and to take actions. All delivery partners will work with the Government Economic Service (GES) to encourage plans to incorporate productivity impacts in appraisal and evaluation. The use of the Regional Economic Council and Council of Regional Ministers will enable the galvanisation of regional stakeholders and provide information to inform policy. Alignment of national, regional and sub-regional partners to deliver improved growth outcomes is critical for this DSO. *Local Democracy, Economic Development and Construction Bill* is in Parliament and will produce an Integrated Regional Strategy for which the government will produce guidance. The implementation of the conclusions from the Public Value Program (PVP) of the RDAs at Budget to work with the RDAs as they reprioritise their investments to maximise the impact of the Single Pot on regional economies, learning the lessons from the recent independent evaluation of RDAs, announced to Parliament on 31 March 2009. A strengthened Sponsorship Framework will drive up value for money in RDAs by embedding evaluation, strengthening public reporting and confirming a reshaped Independent Performance Assessment.
Link to CSR07 PSAs	PSA1 – Raise the productivity of the UK economy. PSA6 – Deliver conditions for business success in the UK. PSA7 – Improve the economic performance of all English Regions and reduce the gap in economic growth rates between regions.

Outcome – 2 (g) Protecting the environment in an economically efficient and sustainable way.	
Overall Outcome Assessment	Some progress
Indicator 1	Increase the size of the global carbon market.
Indicator 2	Increased policy cost-effectiveness.
Assessment against indicators	
Indicator 1	Improvement
Indicator 2	Improvement
Data Statement	
Indicator 1	The global carbon market is growing rapidly. Volumes of carbon traded globally in 2007 increased by 70 per cent compared to 2006, with much of the growth coming from the EU Emissions Trading Scheme (EU ETS). In 2008, global volumes traded increased by a further 61 per cent, and the EU ETS grew by 50 per cent. This significantly exceeds the success measure of 7-10 percent growth per year for this indicator.
Indicator 2	2008-09 is the first year in which data are available for this indicator. Early results show that 99.5 per cent of emission reductions will cost less than the Shadow Price of Carbon (SPC),[14] based on full Impact Assessments (IAs) published between April 2008 and March 2009. If partial IAs are also included then 40 per cent of new reductions will cost less than the SPC.
Overall Outcome Commentary	Establishing a global carbon market[15] is vital to driving cost-effective emissions reductions and generating investment finance for low-carbon technologies in developing countries. The EU ETS remains fundamental to the delivery of carbon savings as well as to the establishment of a carbon price. It covers around 40 per cent of EU greenhouse gas emissions, making it the largest carbon market in the world. The UK was instrumental in the negotiation of the new EU Climate and Energy package in December, which sets the framework for a strengthened EU ETS, with increased environmental ambition. A central, EU-wide cap will ensure an annual reduction in emissions up to 2020, and will support the broadening and deepening of carbon markets as part of coordinated action towards a global deal. The UK is continuing to work towards its long-term goal to agree an ambitious and effective global deal at Copenhagen in 2009, which is crucial to the development of the carbon market. The Government is also committed to ensuring that the UK remains a world leader in its domestic response to climate change. At Budget 2009, the Government set the first carbon budgets - legally-binding limits on greenhouse gas emissions over five-year periods - at levels requiring a 34 per cent reduction in greenhouse gas emissions with respect to 1990 levels by 2020. Current projections show the UK is on track to meet its carbon budgets, with emissions expected to fall by around one-third by 2020. In order to minimise the costs to the UK economy of meeting the budgets, it is vital that the Government continues to deploy efficient and cost-effective policies to reduce emissions. The recent paper *Making the right choices for our future* set out the principles of the Government's approach to climate change policy design, and outlined an economic framework to guide the development of policy to help meet carbon budgets

[14] The Shadow Price of Carbon (SPC) captures the global damage costs of climate change caused by each additional tonne of greenhouse gas emitted

[15] Explanation of Carbon Market may be found at. www.hm-treasury.gov.uk/d/pbr08_chapter7_159.pdf

	The use of consistent carbon pricing in the appraisal of policies and projects across Government ensures that the most cost-effective opportunities for reducing emissions are identified.  *Source: DECC*
Quality of Data Systems	Data on the size of the global carbon market are sourced from the World Bank. They include volumes traded and transferred through EU ETS; volumes issued of Clean Development Mechanism and Joint Implementation; and units transferred and traded in other binding carbon markets. Performance against the cost-effectiveness indicator is measured using information from Government Impact Assessments published since April 2008. A review of the Shadow Price of Carbon is expected to be published in summer 2009 which will require changes to the methodology for this indicator.
Risks to Delivery	Current falls in carbon and energy prices, tight finance conditions and exchange rate fluctuation are creating risks for renewables and other infrastructure investment, which could affect the UK's ability to achieve its target to generate 15 per cent of energy from renewable sources by 2020. Budget 2009 announced additional support and financing to mitigate this risk. Climate change is a global issue that needs coordinated global action. The success of the negotiations on an international framework on climate change will have significant implications for the UK and the world's ability to avoid dangerous climate change.
Future Plans	In the summer, the Government will publish an energy and climate change White Paper, setting out the policies that will deliver the carbon budgets, and continuing progress towards 2050 goals. The Treasury will focus on implementing the reforms to transport and environmental taxation and economic instruments announced in Budget 2009, which contribute towards achieving Government's objectives on energy and climate change. The Government will continue to work with EU partners and through other multilateral fora such as the G8 and G20 to help build the political conditions that will enable an ambitious and effective agreement to be reached at the UN Framework Convention on Climate Change (UNFCCC) meeting in Copenhagen in December.
Link to CSR07 PSAs	PSA27 – Lead the global effort to avoid dangerous climate change.

Outcome – 2 (h) Pursuing increased productivity and efficiency in the EU, international financial stability and global prosperity	
Overall Outcome Assessment	Some Progress
Indicator 1	A stable efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises.
Indicator 2	Progress towards the Millennium Development Goals (MDGs) (as set out in the Government's International Poverty Reduction PSA).
Indicator 3	A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness.
Assessment against indicators	
Indicator 1	Not yet assessed
Indicator 2	Improvement
Indicator 3	Not yet assessed
Data Statement	
Indicator 1	Whilst current economic conditions have been very challenging, progress has been encouraging at the international level through the G20 finance ministers and heads and there have been a number of agreements on coordinated action to stimulate the global economy and enhance the regulatory system. The UK, as Chair of the G20 Finance Ministers in 2009 is playing a leading role in setting the G20 agenda and driving work forward. At the London summit in April 2009 the G20 leaders agreed to do whatever was necessary to: • restore confidence and growth in their economies; repair the financial system and restore lending; • strengthen regulation and supervision to rebuild trust in the financial system; • fund and reform the international financial institutions to overcome this crisis and prevent further ones; • promote international trade and reject protectionism; and • build an inclusive, green and sustainable recovery.
Indicator 2	World Bank data shows that global trends in reducing extreme poverty remain on-track to achieving the MDG target of halving the proportion of people living in extreme poverty by 2015. However, the global economic crisis has made meeting the MDG's more challenging, with an estimated 90 million extra people in poverty entering poverty as a result. The International Poverty Reduction PSA sets out a number of indicators by which progress towards the MDGs is measured. Strong progress is being made on the indicators relating to education and gender parity and there has been progress on child mortality. Those indicators relating to HIV/AIDs and access to improved water sources have mixed performance; and the target for maternal mortality, one of the most challenging, is off-track and a cause for concern. It is too early to judge the other indicator. The global economic crisis is making progress against these indicators more difficult.

Indicator 3	Performance against this indicator is encapsulated in the commitment to the Lisbon goals. The goals are unlikely to be achieved in full, but the Government, the Commission and the European Investment Bank have taken measures to both address the current economic downturn and support long-term structural reform. The EU employment rate, at 65.9 per cent in 2008, is below the 2010 target of 70 per cent. The employment rate in the UK was 71.5 per cent in 2008. In 2008, the productivity gap between the EU27 and the US was 41.8 per cent on a per worker basis, against 39.8 per cent in 2000. The US – EU gap has also been increasing on a per hour basis. In 2005, the latest year for which data is available, the gap was 35.0 per cent.
Overall Outcome Commentary	Much work has been done over recent months to ensure that as far as possible the problems created by the banking and economic crisis are resolved as quickly as possible. It is recognised that efforts to protect the global banking system are vital to on-going global prosperity. The UK has played a leading role in international efforts to strengthen the relevance, effectiveness and legitimacy of the IFIs. Agreements at the London Summit included a tripling of the Fund's resources; a new Special Drawing Rights (SDR) allocation; additional financing for Listed Investment Companies (LICs) and the acceleration of the timetable for the next review of quotas. In addition, recent reforms at the IMF include the launch of the new Flexible Credit Line for countries with a very strong track record and changes to the IMF's policies on conditionality. The UK has long emphasised the need for the IMF to move quickly to establish an early warning exercise with the IMF and Financial Stability Board (FSB) working closely to better identify and address risks to global financial and economic stability. A first pilot of the early warning exercise took place at the Spring Meetings in April 2009 in advance of full implementation at the Annual Meetings in October 2009. The Treasury continues to work through finance and economic ministry channels (such as ECOFIN, the G7, IMF and the Paris Club) to support all of the UK development agenda. In particular, the Treasury: • has used the chair of the G20 process and worked with DFID to maintain the focus of donor country finance ministers on international development, including on their plans to meet their 2005 commitments on aid and debt relief; • works with DFID through the Paris Club, the IMF and the multilateral development banks, as well as with other groups of creditors and with borrowing countries, to promote responsible lending to developing countries and support sustainable debt management in these countries; and • advocates an ongoing, active role for international financial institutions in low income countries, based on country owned poverty reduction strategies and with sufficient flexibility to take account of country circumstances. There has been a positive response to the MDG Call to Action campaign and other international events that the UK has supported, although the global economic situation will increase the challenge of maintaining global support for development.

	In response to the current financial crisis, the European Commission published the European Economic Recovery Plan in November 2008 to help restore growth and improve employment in Europe. It will be important to ensure full coherence between immediate actions and the EU's medium to longer-term objectives, which should be based on the guiding principles of openness and fairness and take full account of the global nature of the problem. The global recession will affect progress towards the Lisbon Strategy which is due to end in 2010; despite this difficulty this strategy remains a vital goal towards the prosperity within Europe and work will be done to ensure a successor to the strategy is in place beyond 2010. The agreement of the EU Small Business Act in December 2008 represents a success for the UK in ensuring a competitive framework and greater opportunities for small business across Europe. Following proposals by the Government, the European Investment Bank (EIB) has increased by 50 per cent the total amount of lending available to small firms and it has significantly simplified its approach to increase the attractiveness of its lending. The EU also committed to better access to finance measures both through European Investment Bank support and an improvement to the venture capital framework. Based on outcome data, it is unlikely that the Lisbon goals will be achieved in full. The EU and its Member States still need to implement significant economic reforms to improve the flexibility of product, capital and labour markets and to encourage greater investment in human capital and innovation. The Government has engaged proactively with its EU partners to encourage further progress. For example, the UK led efforts to improve conditions for small and medium sized enterprises through the Small Business Act adopted in June 2008. In response to the current downturn, the Government, the European Commission and the European Investment Bank have also taken measures both to respond to the downturn – supporting the economy and responding to the financial crisis - and to support long-term structural reform by resisting protectionism and continuing to promote open markets, competition and flexicurity. Action taken includes: • internationally, the European Economic Reform Plan, amounting to €200 billion (1.5 per cent of EU GDP), to support purchasing power, boost demand and stimulate confidence; • increasing EIB lending by 30 per cent in 2009 and 2010 compared to previous years to support small and medium sized enterprises, work on energy and climate change and convergence; and • domestically, taking measures to better support employment, improve skills, encourage investment in infrastructure and support the transition to a low-carbon economy in both the Pre-Budget Report and the Budget.
Quality of Data Systems	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 countries. 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. Outturn data is subject to a time lag due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication. The productivity data has been rescaled for the EU27 and so cannot be compared to previous releases based on EU25 = 100.

Risks to Delivery	There is a risk that further economic and financial shocks destabilise progress made to tackle the global downturn. This could risk undermining the progress that has been made on stabilising the international financial architecture. Current economic difficulties could make meeting the MDG's even more challenging, and potentially divert global attention from the area. Risks that some EU member states advocate protectionist policies in the light of the economic crises. Further economic and financial shocks destabilise progress made to tackle the global downturn. Further economic and financial shocks hinder progress in tackling the global downturn or advancing long-term reform.
Future Plans	Work with other stakeholders across government to ensure rapid follow-up to London Summit agreement on IFI resources and governance reform and on the Prime Minster's review on the adaptability and responsiveness of the IFIs for the next Leaders Summit in September. The Commission, the European Investment Bank and the Government are monitoring the impact of measures taken. The Government will continue to work with its EU partners to accelerate economic reform in Europe, for example by being actively involved with ongoing discussions in the EU on a successor to the Lisbon Strategy beyond 2010.
Link to CSR07 PSAs	PSA27 – Lead the global effort to avoid dangerous climate change. PSA29 – Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals.

3 Ending child poverty

Introduction

3.1 Every child deserves the best start in life, free from financial poverty and material deprivation. The Government is committed to its pledge to eradicate child poverty by 2020.

3.2 Childhood experience lays the foundations for later life. Therefore it is vital to provide children and young people with the opportunities they need to reach their full potential as adults. Children who grow up in poverty are less likely to stay on at school, to attend school regularly, to get qualifications or to go on to higher education, and more likely to become young parents, locking whole families into intergenerational cycles of deprivation. Reducing the number of children who are born into poverty will increase the number of children born into opportunity, and will enhance their opportunities as adults and subsequently the life chances of their children, thus perpetuating a virtuous circle. While the Government recognises that bringing up and supporting children is largely the responsibility of parents, the state has a role in helping parents to do the best they can for their children. The Government wants to support, protect and enable all children to enjoy a good quality of life.

3.3 The Government's commitment to halve child poverty by 2010-11 is a key milestone on the way to eradicating child poverty by 2020. The Child Poverty Review 2004 articulated the Government's comprehensive strategy for tackling child poverty. The Review set out a number of work strands to:

- provide financial support;
- increase employment;
- tackle material deprivation; and
- improve children's life chances.

3.4 Despite the current challenging financial and economic environment – the Treasury continues to work hard to understand and address the issues affecting child poverty.

3.5 Budget 2009 announced further increases to the child element of the Child Tax Credit of £20 a year above indexation from April 2010, providing valuable support to families with children – this new measure and those announced in the 2008 Pre-Budget Report (PBR 2008) will help reduce child poverty.

Governance

3.6 The Chancellor of the Exchequer, the Secretary of State for Children, Schools and Families (DSCF) and the Secretary of State for Work and Pensions (DWP) are responsible for the delivery of the child poverty PSA. The Chancellor of the Exchequer is the lead minister.

3.7 The Senior Responsible Officer (SRO) within Government for this PSA is the Managing Director for Budget Tax and Welfare in HM Treasury. The SRO chairs a Senior Official PSA Delivery Board which is made up of senior officials from DWP and DCSF. The Board meets regularly to monitor progress and review delivery and reports directly to an Inter-Ministerial Group comprised of the Secretaries of State for the Treasury, DWP and DCSF. This group is chaired by the Chancellor of the Exchequer and is responsible for regularly monitoring progress and holding departments and programmes to account.

3.8 In addition to this, the Senior Official on the PSA Delivery Board jointly chairs a cross-Whitehall Child Poverty Board which has a much broader focus on the contribution of public services towards eradicating child poverty. The Board and its working group enable partners like HM Revenue and Customs (HMRC), Communities and Local Government (CLG), and the Department for Business, Innovation and Skills (BIS) to contribute to delivering this PSA. This group reports to the relevant Cabinet Committee.

Action and Aims

3.9 The vision and strategy for delivering this PSA is set out in the PSA Delivery Agreement which was published alongside CSR07. This delivery agreement also sets out the policies across Government that impact on child poverty. Since the first report against this PSA in the 2008 Autumn Performance Report, the Government has announced its intention to set in legislation the pledge to eradicate child poverty by 2020. "*Ending Child Poverty: making it happen*" published earlier this year, set out the key elements of the Government's vision- tackling the root causes of poverty by improving children's life chances for the longer term, prioritising co-ordinated and sustained action across all areas and levels of government.

3.10 The Government has recently published the Child Poverty Bill, which sets child poverty targets and establishes an accountability framework to drive progress towards the 2020 goal at national and local level.

3.11 The tri-departmental Child Poverty Unit is working to take forward a number of the commitments made such as rolling out pilots to tackle child poverty, working on ways to improve parental employment in London and working with local delivery partners to ensure that local authorities are doing all they can.

3.12 DWP is providing support to help lone parents move into and remain in work through New Deal for Lone Parents (including work focused interviews), and In-work Credit. In addition, they are also piloting help for couples with children to move into work (similarly, through the New Deal and In-work Credit).

3.13 HMRC is delivering tax credits to six million families, benefiting ten million children. Through the Tax Credits Transformation Programme, they are tailoring help to the needs of customers and have recently made significant service improvements. They have already introduced a service for the around 170,000 couples who report a relationship breakdown each year to help them adjust their claim quickly. HMRC are also contacting 73,000 vulnerable customers to assist them in renewing their claim for the first time, and tax credits advisers are working with 100 Children's Centres to ensure advice and help are available more widely.

Background

3.14 Between 1998-99 and 2007-08 relative child poverty fell by 500,000 children from 3.4 to 2.9 million and absolute poverty halved from 3.4 to 1.7 million children. In 2004-05 (the baseline year) there were 2.2 million children in combined material deprivation and low income poverty. While this indicator has shown no change over the period as a whole, it fell to 2.0 million children in 2006-07.

3.15 Measures announced in and since Budget 2007 and described below will lift around a further 500,000 children out of relative poverty, the impact of which has yet to feed through into the above statistics.

3.16 The tax and benefit system provides support to six million families, benefiting ten million children. Since Budget 2007 the Government has invested significantly in financial support measures. The present tax credits system is already providing an average £3,600 a year to six million families.

Overall Assessment for PSA9

3.17 The position on the first two indicators has not changed since the start of the 2007 CSR period; the third indicator (Low Income and Material Deprivation) showed slight progress in 2006-07 but has since reverted to its baseline of 2.2 million. Therefore the overall assessment for this PSA is No Progress.

Assessment of PSA9 performance indicators

PSA9 – Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020	
Overall PSA Assessment	No Progress
Assessment against indicators	
Indicator 1	The number of children in absolute low-income households
Indicator 2	The number of children in relative low income households
Indicator 3	The number of children in relative low-income households and in material deprivation
Data Statement	
Indicator 1	Between 2006-07 and 2007-08 absolute child poverty remained constant, standing at 1.7million children, a fall of 1.7 million children since 1998-99.
Indicator 2	Between 2006-07 and 2007-08 relative child poverty remained constant standing at 2.9 million children, a fall of 500,000 children since 1998-99.
Indicator 3	In 2007-08 there were 2.2 million children in combined material deprivation and low income poverty. In 2004-05 (the baseline year) there were 2.2 million children in combined material deprivation and low income poverty. While this indicator has shown no change over the period as a whole, it fell to 2.0 million children in 2006/07. The recent increase is likely to be due to high prices, particularly the high cost of fuel, over the period in question.
Overall Outcome Commentary	Quick and decisive action has been taken to help people who are struggling as a result of the global economic downturn. The flexibility of tax credits has allowed support to be targeted on those living on a reduced income. The 2008 PBR brought forward increases to the child element of the Child Tax Credit and Child Benefit, to provide additional support to families with low to moderate incomes. It also set out that in April 2009 the Health in Pregnancy Grant will be introduced at a value of £190 for all women after the 25th week of pregnancy. Low income families will also benefit from the wider measures on personal taxation and VAT as well as the up-rating of benefits and tax credits above earnings this year and the real terms gains next year from benefits being held constant while prices fall. Budget 2009 built on this and announced the child element of the Child Tax Credit will increase by an additional £20 a year above indexation from April 2010. The Budget also invested an additional £270 million for Social Fund loans and announced an additional £100 a year to the Child Trust Funds accounts of disabled children and £200 for severely disabled children from 2010, backdated to April 2009. Around a further 500,000 children are expected to be lifted out of relative poverty as a result of measures already announced.
Quality of Data Systems	Performance against this target is assessed using the annual Households Below Average Income (HBAI) report published as National Statistics by DWP. The latest data available are for 2007-08.
Risks to Delivery	It is possible that child poverty targets become more challenging because of; • rising parental worklessness as a result of the downturn; and • parental incomes falling and parents not claiming all of the financial support on which they are entitled to rely. To mitigate against these risks, DWP are taking steps to help maintain employment and the Government is taking action to ensure that families claim all the support to which they are entitled.

Future Plans	Eradication of child poverty by 2020 requires sustainable progress in improving children's life chances for the longer term. The Government has further demonstrated its commitment to this by introducing the Child Poverty Bill. The Bill sets targets, proposes a clear accountability framework and an expert commission. Legislation will drive action towards a fairer society where children have the opportunity to achieve their potential. The tri-departmental Child Poverty Unit is working to develop the long term strategy as well as taking forward a number of the commitments already made such as rolling out pilots to tackle child poverty, working on ways to improve parental employment in London and working with local delivery partners to ensure that local authorities are doing all they can.
Link to CSR07 DSOs	DSO 2(c) Improving incentives and means to work; supporting children and pensioners and helping people plan and save for the future.

4 An effective and efficient department

Introduction

4.1 For the Treasury Group to deliver on its commitments made under the Comprehensive Spending Review 2007 (CSR 2007), and also to adapt quickly to new challenges as they emerge, it must have in place a strong corporate strategy to facilitate an effective and efficient working environment.

4.2 The current economic and fiscal climate is challenging. During the period of this report the Government acted decisively to reinforce the stability of the financial system, to increase confidence and capacity to lend, and to support the economy. The Treasury has provided advice to the Government in achieving these goals. While the economic situation remains fragile, market responses to the Treasury's actions have been broadly positive and the UK's approach has been emulated by governments around the world.

4.3 Responding to the financial crisis and recession has created challenges for the Treasury Group, ranging from responding quickly with policies to stabilise the financial system, ensuring it is able to deliver these interventions effectively, taking a lead role in supporting an internationally co-ordinated response through the G20 process, leading the co-ordination of the fiscal stimulus, to a doubling of gilt issuance and cash management activities since this time last year. Looking ahead, the issues presented by the recession and the consolidation of the public finances add further complexities to the Treasury's agenda.

4.4 The Treasury corporate does not underestimate the scale of these challenges. It has taken steps to ensure it has the capacity and capability in place to continue to rise to them.

4.5 In particular, the delivery of the department's new responsibilities – ensuring that financial stability is maintained and taxpayer value protected throughout this period of intervention in the financial markets – remains one of the Treasury's central priorities. This requires new organisational structures and expertise and, as a result, during 2008-09 the Treasury has acted decisively to ensure it remains well placed to deliver as a department.

4.6 The events of the last year have required continued **effective leadership** at official level. There have been several senior appointments to ensure the Treasury continues to have the necessary strength and experience at Board level to oversee the department. Tom Scholar was appointed to the role of Second Permanent Secretary (International & Finance), and Andrew Hudson, former Chief Executive of the Valuations Office Agency, has been appointed as Managing Director (Public Services and Growth). There have also been the appointment of three additional Non-Executive Directors to the Treasury Board – Sir Callum McCarthy (former Chair of the Financial Services Authority), Dame Deirdre Hutton CBE (Chair of the Food Standards Agency), and Michael O'Higgins (Chair of the Audit Commission).

4.7 The Treasury has to ensure it remains well-placed to properly manage the delivery of its new responsibilities to the standard expected of any high performing organisation. As such, it has put in place measures to adapt its **governance and oversight** framework. Along with appointments to the Board, the Treasury has put in place a new Delivery Committee, chaired by the Permanent Secretary, which has oversight of its major delivery responsibilities and manages the successful implementation of major programmes. Developments to the corporate strategy and to performance management information ensure there is a clear articulation of direction and comprehensive data on progress against key indicators. The strength and capacity of the Treasury's Audit and Risk Committees is being increased, with further new Non-Executive Directors. In addition, the Treasury Group has established new arms length bodies to deliver some of the Treasury's new delivery responsibilities: UK Financial Investments Ltd, and the Asset Protection Agency.

4.8 The Treasury Group has taken action to ensure it has sufficient **capability and capacity** to respond to emerging priorities and risks. A major recruitment campaign, combined with a targeted approach to the use of professional advice and expertise, has helped to ensure that the department has the capacity to respond effectively. The Treasury has increased staffing levels and reallocated existing resources to strengthen key areas, in particular financial services and macroeconomic and fiscal policy – showing resilience and flexibility to respond swiftly to new challenges.

4.9 The department's greatest asset remains its staff, and it has taken steps during the year to ensure it maintains an **engaged and productive workforce**. This is in direct recognition that events of the last year have placed additional burdens and workload on staff. Effective communication, a drive to engage staff in the delivery of the department's 2011 Vision, and a significant investment of senior time with all staff has reaped reward, as evidenced by marked improvements in the results of the department's annual staff opinion survey on all categories bar one.

4.10 The department's interactions and **communications with stakeholders** has been fundamental to its response to the events of the last year. Working relationships with the other Tripartite Authorities has been vital to success, as well as effectively managing the relationship with the financial sector, Parliament, and the public. The department has invested significant time and energy in ensuring these relationships remain strong, and is working to measure the quality of these relationships so that further, targeted improvements can be made in the coming year.

4.11 The department has also maintained a commitment to:

- **Value for money** - the Treasury Group successfully delivered £29.9 million in efficiency savings during the SR2004 period, and is on course to achieve savings of £35 million over the CSR 2007 period; and
- **Sustainability** - the Treasury Group successfully attained the Carbon Standard, and has been rated by the Sustainable Development Commission as the most environmentally friendly department in Whitehall.

4.12 To support the delivery of the Treasury's corporate priorities, the department has established a **Departmental Corporate Objective (DCO)** to sit alongside its two Departmental Strategic Objectives, to ensure the department remains an effective and efficient economics and finance ministry. **Box 4.A:** sets out how seven **DCO outcomes** underpin the achievement of this objective.

Box 4.A: Departmental Corporate Objective

Enable HM Treasury to deliver effectively and efficiently, and remain a strong, respected and professional economics and finance ministry

Underpinning DCO outcomes:

DCO1	Managing the Treasury's work, performance and risk
DCO2	Managing the Treasury's people
DCO3	Managing the Treasury's finances
DCO4	Managing the Treasury's knowledge and information systems
DCO5	Managing the Treasury's relationship with Ministers and Parliament
DCO6	Managing the Treasury's stakeholders and communication
DCO7	Managing the Treasury's infrastructure and estate securely and sustainably

4.13 The remainder of this chapter sets-out some of the detail of performance under each of these seven DCO outcomes.

DCO1: Managing the Treasury's work, performance and risk

4.14 The maturation of the systemic risks relating to financial stability; the new delivery responsibilities resulting from the significant interventions in the financial markets; and the rapidly changing nature of the economic circumstances over the last year, have all placed new and different requirements on the governance framework and leadership of the organisation.

4.15 The Group has taken action to strengthen further its leadership at official level through new senior appointments; it has strengthened its control framework to ensure it remains sufficiently robust to deal with the new challenges created by recent events; and, where necessary, it has extended this framework through the creation of new Arms-Length Bodies (ALBs) to ensure it can exercise suitable oversight and delivery of its new delivery responsibilities.

The corporate governance framework

4.16 The Treasury Group manages its work, performance and risk through its corporate governance framework. This framework defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation; determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation's objectives are set; and provides the means of attaining those objectives and monitoring performance.

4.17 The Treasury Board leads the Treasury in a manner that enables Directorates and their individual management boards to run the day-to-day business of the Treasury, with the Board providing strategic input, direction and leadership, as well as oversight of risk. The Treasury Group complies with the provisions in the Corporate Governance Code of Good Practice.[1]

4.18 The Treasury Board, its Committees, their membership and remits together with information about the Group's adherence to the Code of Corporate Governance are described in more detail in Annex B to this chapter.

Strong leadership and oversight

4.19 Delivery of the commitments under CSR 2007 combined with events of the last year require continued effective leadership at official and Board level. There have been several senior appointments to ensure the Treasury has the necessary strength and experience at Board level to oversee the department during this period. In particular, Tom Scholar has been appointed to the role of Second Permanent Secretary (International and Finance); and Andrew Hudson has been appointed as Managing Director Public Services and Growth. Board capacity has been further strengthened by a new Director of Corporate Services, both to provide leadership capacity in particular on IT and people issues and to allow the existing Director of Finance and Procurement to have more capacity to focus on the materially increased financial management and stewardship responsibilities.

4.20 There has also been the appointment of three new Non-Executive Directors to the Treasury Board:

- Sir Callum McCarthy (former Chair of the Financial Services Authority);
- Dame Deirdre Hutton CBE (Chair of the Food Standards Agency); and
- Michael O'Higgins (Chair of the Audit Commission).

4.21 They join Sir William Sargent, Joint Chief Executive of Framestore, in supporting the executive members in providing leadership of the Treasury Group.

[1] www.hm-treasury.gov.uk/d/daocorpgovernancecode.pdf

Strong governance and control

4.22 The department continues to ensure that it remains well-placed to manage itself to the standard expected of any high performing organisation. In addition to key senior appointments, measures are in place to continue to ensure its **governance and control** framework remains strong.

4.23 The adoption of the two DSOs, combined with the DCO, has provided a clear articulation of the aims of the Treasury Group. The department has taken the opportunity to reform its corporate strategy to ensure it has a clearer articulation of its direction and purpose. This in turn has been supported by a refreshed approach to performance management information, providing comprehensive data on progress against key indicators. This provides the Board and its sub committees with effective data to monitor the performance of the Treasury Group.

4.24 The Treasury has also invested a significant amount of time and effort in maintaining an effective approach to the **management of risk**. Work on the Treasury Group's risk framework is ongoing, and will continue to be supported by the **Group Resource Audit Committee (GRAC)**, which is chaired by Michael O'Higgins (chair of the Audit Commission). The Treasury is currently recruiting additional members of the GRAC to provide added scrutiny of the department's processes and systems for managing risk.

The control framework and new responsibilities

4.25 The crisis in the global financial markets raised several issues for the governance framework of the Treasury Group, not only in responding swiftly to the instability in the markets, but also in the **delivery of its new responsibilities** resulting from the interventions made to ensure stability. The department has acted to adapt its control framework further to ensure it is well-placed to properly manage the delivery of these new responsibilities.

4.26 During the year, certain parts of the Treasury Group were placed under pressure associated with the financial crisis. Action was taken to ensure that these parts of the Group was **sufficiently resourced** and supported to carry-out their role effectively, while minimising the degree of pressure and stress that was placed on staff. Resources were reallocated to strengthen key areas, in particular financial stability and services and macroeconomic and fiscal policy. The Treasury Group also recruited significant new members of staff to boost capacity (see DCO2). In the most recent staff opinion survey (December 2008), there was an improvement in the numbers of staff who felt that the department was doing a good job at moving people to where they are most needed (+12 per cent).

4.27 Many of the interventions to secure financial stability, and deal with the consequences of uncertainty in the markets, create new delivery responsibilities for the Treasury Group and have implications for the Group's Resource Account. As well as establishing new Arms-Length Bodies where necessary to operate some of the schemes, the Group has amended its control framework to reflect its new responsibilities. In particular, the Group has established a new **Delivery Committee of the Board**, chaired by the Permanent Secretary and Accounting Officer, to oversee the successful implementation of these interventions. The implications of these interventions on the Resource Accounts is reported in Section 2 of this document, and the changes to the corporate governance framework (including arms length bodies) is reported in Annex B.

Fulfilling the Treasury's potential – Vision 2011

4.28 Vision 2011 is a three-year programme of activities to improve the way Treasury operates, and aims to ensure the department is well placed to deliver its objectives.

Box 4.B: Vision 2011

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, the Treasury 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.

The Treasury's stakeholders will view it as competent and prudent, as well as approachable, understanding and collaborative.

To meet its changing strategy and delivery responsibilities, it shall be agile, prioritising resources, streamlining processes and working flexibly across traditional boundaries.

The Treasury shall continue to offer people a compelling work experience the chance to work in a fast moving and stimulating environment, with the right tools, training and systems.

The diverse and committed workforce will develop their skills, expertise and professionalism and apply them in demanding and rewarding jobs within the Treasury.

4.29 The programme was launched in April 2008 as an agenda to strengthen the department with five key themes for change:

- Workforce, Skills and Culture
- External relations and Stakeholders
- Our Role at the Centre of Government
- Leadership, Strategy and Corporate Governance
- Business Processes and Systems

4.30 The first year of the Vision 2011 programme has successfully delivered against its priorities, with new staff recruited and inducted into Treasury, a new performance management structure for other Government departments to aid Treasury and Cabinet Office working collaboratively, implementation of a leadership strategy to improve leadership across the organisation and the introduction of several improved business systems, such as remote working and a self managed HR system.

The external opinion of the Capability Review

4.31 The capability review of HM Treasury, undertaken in December 2007, noted *"[Treasury] needs to strengthen its systems and processes that support performance management, ensure consistency and control risk whilst retaining the creativity and innovation that is important to many aspects of its work"*.

4.32 The one year re-review, conducted in December 2008, highlighted that the Treasury has made positive steps to the issues raised in its original capability review: *"Overall, HM Treasury has made progress over the last 12 months despite the significant challenges presented by the financial markets, the economic downturn and an unprecedented workload… [and] despite the huge pressure on senior management, staff continue to recognise the commitment of the Board and Executive Management Group to the 2011 vision"*.

DCO2: Managing the Treasury's people

4.33 The Treasury values its people and has taken steps during the year to ensure that its workforce has the capacity and capability to deliver effectively, but also that its staff remain engaged and productive. The Treasury recognises that the events of the last year have required additional responsibilities and associated pressures on staff throughout the department.

4.34 The Treasury Group has boosted staff numbers during the year through major recruitment campaigns, has ensured it has the skills and expertise to deliver (including through targeted use of professional advice and expertise), and has placed particular attention to communication and engagement of its staff through a significant investment of senior time with staff, thereby ensuring the continued welfare of its workforce. As a result of these efforts, the latest staff opinion survey carried out in December 2008 showed a marked improvement on all categories bar one (which stayed static) compared to the previous year.

Table 4.A: Table HM Treasury Group Staff Numbers[2]

Full Time Equivalents (FTEs)	31 March 2003	31 March 2004	31 March 2005	31 March 2006	31 March 2007	31 March 2008	31 March 2009	31 March 2010 (plans)	31 March 2011 (plans)
Core Treasury									
CS Permanent	1294	1307	1206	1204	1188	1066	1156	1313	1282
CS Casual	60	64	62	55	52	70	87	73	66
Total Gross Control	1354	1371	1268	1259	1240	1136	1243	1386	1348
DMO									
CS Permanent	79	84	76	71	75	69	79	100	100
CS Casual	2	2	1	1	1	4	7	5	4
Total Gross Control	81	86	77	72	76	73	86	105	104
OGC									
CS Permanent	300	290	300	280	259	195	197	275	275
CS Casual	10	20	70	70	36	47	43	30	30
Total Gross Control	310	310	370	350	295	242	240	305	305
Treasury Group									
CS Permanent	1673	1681	1582	1555	1522	1330	1432	1688	1657
CS Casual	72	86	133	126	89	121	137	108	100
Total Gross Control	1745	1767	1715	1681	1611	1451	1569	1796	1757
Buying Solutions									
CS Permanent	230	243	260	282	285	298	310	335	350
CS Casual	10	0	0	0	4	0	0	0	0
Total Gross Control	240	243	260	282	289	298[3]	310	335	350

2 Staffing numbers for core Treasury, OGC, Buying Solutions and DMO have been compiled and are in accordance with ONS reporting requirements. These figures exclude contract and agency workers and staff who are on unpaid maternity leave, unpaid sick absence and career breaks.

3 Annual Report 2007-08 incorrectly quoted the figure for OGC Buying Solutions as 268

Boosting workforce capacity

4.35 At 31 March 2009, the Treasury Group had **1569 Full Time Equivalent (FTE) staff**. Table 4.A shows the staff numbers for the Treasury Group since 1 April 2002, and plans for up to 1 April 2011. The actual at the end of March 2009 is greater than the plan as represented in the last Annual Report (2008) and is due to the increased number of staff required to meet the demands placed on the Treasury Group as a result of the extraordinary events of the last year.

4.36 The Treasury Group's recruitment procedures are in accordance with the Civil Service Commissioners' Recruitment Code, which is based on the principles of fair and open competition and selection on merit. This recruitment has been supported by a revised approach to staff induction – with a comprehensive introduction to the work and current challenges of the department, to ensure that staff hit the ground running and add value to the work of the department within a very short space of time. The Treasury seeks to recruit and retain highly skilled individuals, and to develop them as appropriate to become high performing members of staff. **Recruitment** by category is shown in Table 4.B.

Table 4.B: Treasury recruitment shown by category between April 2008 and March 2009

Range	Permanent appointment (inc permanent transfers from other Departments)	Fixed-Term appointments[4]	Loans from other government departments	Secondments	Total
B	26	17	3	0	46
C	15	7	3	1	26
D	96	37	39	13	185
E	21	16	27	18	82
SCS	7	2	1	4	14
Total	165	79	73	36	353

4.37 The **allocation** of resources across the Treasury has been kept under review over the course of the year. As the financial crisis unfolded, the Treasury has not only increased staffing levels, it has reallocated staff to areas under most pressure.

4.38 As mentioned in the previous section (DCO1), the department has also recruited to fill key **leadership** positions within the department. This has included a new Second Permanent Secretary; a new Managing Director; two additional Directors working on financial stability; and a new Director of Corporate Services. In addition the department has recruited to fill a new position of Director of Communications Strategy, supported by a new Economic Briefing Unit.

Boosting workforce capability

4.39 In addition to the increase of staff and senior posts in the areas of financial stability, the Treasury has focused on ensuring it has the necessary capability and expertise in place to respond to the financial crisis and ensure it can deliver its new responsibilities effectively.

4.40 Together with a targeted use of professional advice and expertise, the Treasury continues to develop the capability of its workforce. To this end it agreed a revised Learning and Development strategy to 2011. This set out the Treasury's strategic priorities for Learning and Development, building on the Capability Review of December 2007 and a departmental skills audit carried out in Spring 2008. This will be further supported by a refresh of the department's understanding of its workforce needs which will be carried-out during the summer of 2009, and the development of a **new workforce strategy**

[4] Excludes the 34 sandwich and placement students recruited via the Government Economic Service

to ensure the department has the required skills, knowledge and experience to deliver its responsibilities effectively and efficiently.

4.41 In addition, a new **career development framework** is being developed which will provide greater clarity on career options. This should build on the re-accreditation of the Treasury's Investor in People status in 2007, and existing development and training opportunities, including the Catalyst leadership programme.

Box 4.C: Catalyst leadership development programme

The Treasury used the National School of Government's (NSG) Leadership Assurance Benchmarking service (LAB) to carry out a full review of our Catalyst leadership programme for those nearing readiness for the Senior Civil Service. As a result of this review the Catalyst programme has been **awarded 3-stars by the NSG**. The department has also re-launched its Prospects development programme for those in administrative positions who show potential to advance to junior policy grades.

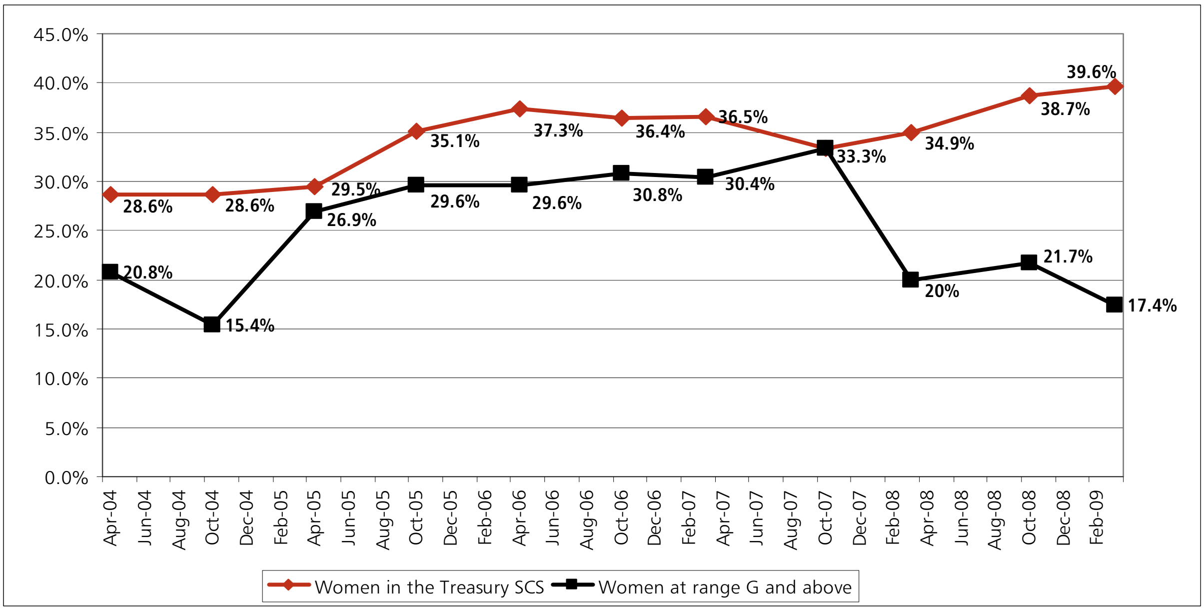
Staff diversity

4.42 The Treasury seeks to actively promote a culture that values difference and recognises that diversity enriches the economy - and society - and is an essential ingredient of change and progress. As an employer, the Treasury seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented work force that is representative of the society it serves.

4.43 Along with other government departments, the Treasury has targets to increase the proportion of women (to 42 per cent), ethnic minorities (to 5 per cent), and people with disabilities (to 5 per cent) in the Senior Civil Service (SCS). In addition, there are targets for the proportion of women in top management posts to increase to 35 per cent and for women in the feeder grades to the SCS (in other words Range E and Range D) to increase to 50 per cent. Progress is being made but there is still a lot of work to be done, particularly at Range G and above. In the feeder grades below SCS, at Range E, 36.7 per cent and Range D 41.6 per cent of staff are female (March 2009) ensuring there is a pipeline of talent to allow progress (Table 4.C).

4.44 Representation of ethnic minority staff in the SCS is 3.6 per cent (March 2009). The target is 5.0 per cent. Below the SCS steady progress has been made in increasing the pipeline of talent so that 6.7 per cent of Range Es and 16.9 per cent of Range Ds are from ethnic minorities. The target for the representation of ethnic minority staff in these feeder grades is 16 per cent. The Treasury is a member of Race for Opportunity to ensure it adopts a best practice approach to promoting race equality.

Chart 4.A: Percentage of women staff in SCS and Director-level posts (Range G and above)



Source: HM Treasury

4.45 At March 2009, 3.6 per cent of SCS staff have recorded themselves as having a disability. The target is 5.0 per cent. The progress in the SCS is encouraging. More work, however is required to improve the representation of people with disabilities in the feeder grades. The representation (March 2009) at Range E is 4.3 per cent, (target is 8.0 per cent) and Range D, 2.2 per cent (target is 6.0 per cent). The Treasury has participated in the third Employers' Forum on Disability benchmarking exercise to ensure it maintains a best practice approach, as well as the Stonewall benchmarking exercise. The results of this exercise will be available in the summer of 2009.

Table 4.C: Treasury staff diversity at 31 March 2009

Range	Women (per cent)	People from Minority ethnic background (percent)	People with Disabilities (percent)
B	73.0	32.0	6.6
C	58.5	26.7	10.8
D	41.6	16.9	2.2
E	36.7	6.7	4.3
F	39.6	2.7	3.6
G	17.4	0.9	0.0
H	0.0	0.0	0.0
Overall	46.2	15.5	4.7

4.46 The Treasury has continued to build upon an important initiative introduced in 2007-08 linking the department to nine universities with diverse student populations. In 2008-09 the department has sponsored an undergraduate on the Windsor Fellowship Scheme and is now in its fifth year of participation in the University of East London's National Mentoring Consortium for Ethnic Minority Undergraduates. The objective of this work is to encourage applications, for employment opportunities, from underrepresented groups.

Staff wellbeing

4.47 The events of the last year have at times placed unavoidable pressures on some staff. The Treasury is committed to supporting its staff, ensuring they have the training and support in place to deliver effectively. While long working hours have been unavoidable in some parts of the Treasury, senior management remains committed to supporting individuals to manage their work / life balance.

4.48 As a result of this, the department has introduced shift working and workload planning in some areas of the department's business to ensure the workload is managed effectively and remains sustainable. This has been further supported by the establishment of a pool of business support staff to cover weekend and evening working, where this is necessary, together with mobilisation of additional support from corporate services to relieve staff of some administrative tasks. The department's Facilities Management team have provided out of hours access to the office estate and supporting services, and the welfare counselling and other well-being support services have been available to staff, helping them identify and manage stress effectively.

4.49 This illustrates the Treasury's recognition and acceptance of its responsibility as a good employer for ensuring, as far as is reasonably practicable, the health, safety and well-being at work of all employees and to ensure that the health and safety of visitors, contractors and the general public are not affected as a result of the Department's activities. There were eighteen workplace injuries reported by Treasury and OGC staff in the calendar year 2008. Three of these injuries resulted in lost time, but none met the criteria for reporting to the Health and Safety Executive.

Staff engagement

4.50 The Treasury works hard to maintain an engaged and productive workforce. This has been particularly true over the course of the last year, with a significant investment of senior time with staff. More effective and innovative communication with staff – for example through improved Board communications, blogs, and videos – combined with a greater drive to engage staff in the department's vision for 2011, have resulted in marked improvements in the results of the last staff opinion survey (see Box 4.D).

Box 4.D: Staff survey

The latest staff survey was held in December 2008 and 80 per cent of staff responded. The department continues to secure high scores in the following areas (note that the percentage difference does not represent an unfavourable response, as this includes the 'don't know' category):

- Strategy and goal clarity: 86 per cent favourable response;
- Senior management: 71 per cent favourable response;
- Team effectiveness: 79 per cent favourable response;
- Staff engagement: 71 per cent favourable response; and
- Learning and development: 71 per cent favourable response.

Compared to the previous staff opinion survey in 2007, there were marked improvements on all survey categories, particularly statistically significant improvements in:

- Leadership (relates to leadership at official level): +13 per cent improvement;
- Senior management: +8 per cent improvement;
- Staff engagement: +7 per cent improvement;
- Strategy and goal clarity: +5 per cent improvement;
- Learning and development: +5 per cent improvement; and
- Stakeholder management: +5 per cent improvement.

Within these categories, the highest statistical improvements on individual questions related largely to the official leadership of the department:

- Communications of the Executive Management Group: +20 per cent improvement;
- Leadership of the Executive Management Group: +17 per cent improvement;
- Communications of the Treasury Board: +14 per cent improvement;
- Confidence in Directorate senior management: +14 per cent improvement; and
- Leadership and visibility of the Treasury Board: +10 per cent improvement

The Treasury now scores significantly better than the public sector norm on seven out of twelve categories, and worse on only one category (performance management and reward). The department will continue to work to improve these results yet further, in recognition of the fact that an engaged workforce will remain highly productive.

Reward and Recognition

4.51 The Treasury Group has a policy to recognise those staff that have performed exceptionally in their roles through the payment of bonuses. Bonuses are paid in two circumstances:

- performance bonuses are linked to the annual staff appraisal system; and
- special bonuses are paid to staff in-year to recognise specific contributions or pieces of work.

4.52 Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. For example, in the table below, bonuses paid in 2007-08 would be for performance in the year 2006-07.

Table 4.D: Performance and special bonuses paid by the Treasury Group during 2007-08 and 2008-09.

	Paid in 2007-08	Paid in 2008-09
Core Treasury	1,370,154	1,385,047
DMO	199,765	224,792
OGC	341,047	351,273
Total	1,910,066	1,961,112
Source: HM Treasury		

4.53 Information on the bonus awards made to members of the Board can be found within Section 2, the Resource Accounts.

DCO3: Managing the Treasury's finances

4.54 The Treasury Group manages its own finances to the standard expected of every other government department. The events of the last year have had a marked effect on the nature of the Treasury Group's resource accounts, both in terms of ensuring the Group has sufficient resources to deliver at this challenging time, continues to secure the best possible value for money for the taxpayer from existing operations, accounts clearly and transparently for the significant interventions in the financial markets, and can meet high standards for payments to key suppliers who may themselves be facing cash flow difficulties in the current economic climate.

4.55 Chapter 5 sets-out core financial data and projections in detail, and Section 2 of this report forms the Treasury Group's Resource Accounts.

Ensuring sufficient resources to deliver

4.56 Treasury Group funding for the 2007 Comprehensive Spending Review (CSR) period, (2008-09 to 2010-11), was £242 million, £236 million and £230 million respectively in terms of the Departmental Expenditure Limit (DEL) over the period. This settlement was delegated formally in October 2007 and came at a time before global financial instability dominated spending plans and projections.

4.57 During 2008-09, Treasury Group has reallocated significant resources toward meeting the demands of financial stability work from savings generated during the year on 'business as usual' activities.

4.58 Additional funding has also been sought to meet the increase in administration costs as a result of the Treasury Group's response to the financial crisis (over and above that reallocated from value for money savings), and a commitment of £20 million for 2009-10 has already been secured.

Securing Value for Money from the Treasury Group

4.59 The 2007 Comprehensive Spending Review (CSR) settlement for the Treasury Group[5] was agreed in Budget 2006. The settlement was challenging: a reduction in both resource and capital DEL spending of 5 per cent per year in real terms, amounting to £30 million, consistent with the cross-government aim to achieve at least 3 per cent net cash releasing savings, on the 2007-08 baseline budgets for near-cash resource and capital. The savings already made through the efficiency programme in the 2004 Spending Review period put the Treasury Group in a strong position to meet this further challenge. The Treasury published a Value for Money (VfM) Delivery Agreement in December 2007 setting out how the Group would identify, achieve and monitor £30 million of VfM savings through the 2007CSR period (2008-09 to 2010-11).

4.60 Budget 2009 announced plans to increase the Treasury Group's target to £35 million by 2010-11,[6] through participation in the Operational Efficiency Programme and other initiatives. The Treasury Group published a revised VfM Delivery Agreement July 2009 setting out how it will achieve its increased value-for-money plans by 2010-11. This is available from the Treasury website, alongside the original VfM Delivery Agreement from December 2007.[7]

4.61 Delivering these savings will mean the Group must become more efficient in the way it delivers its core business, focusing resources on priority areas, and putting the right systems in place to support and enable staff to deliver the Group's objectives. Through realising further value for money gains and the commitment of new resources where necessary, the Government is ensuring that the Treasury has the resources it needs to implement policies to support the economy and maintain stability in the financial services sector.

[5] HM Treasury Group comprises HM Treasury, the Office of Government Commerce (with its agency, Buying Solutions) and the UK Debt Management Office.

[6] *Budget 2009: Building Britain's Future* (HC 407), April 2009, page 132 and *2009 Value for money update*, HM Government, April 2009, Chapter 4

[7] www.hm-treasury.gov.uk/vfm_delivery_agreement.htm

DCO4: Managing the Treasury's knowledge and information systems

4.62 Effectively managing information and knowledge to ensuring that the Treasury Group's institutional memory continually develops and improves remains a high priority. The benefit of this approach is invaluable to the department in its day-to-day work and was especially relevant as the financial crisis developed.

Learning from experience

4.63 The experience developed – together with the corresponding evolution of the supporting systems, procedures and processes – during the handling of Northern Rock, served to enable the Treasury to respond quickly and efficiently when further institutions required stabilisation. For example, the provisions of the Banking Act at the time of Northern Rock allowed the Treasury to respond rapidly when intervention was required to stabilise Bradford & Bingley.

4.64 The Treasury Group has invested time and effort in sharing this experience widely within the organisation beyond those directly working on the issue – through various mechanisms including, for example, department-wide presentations from the Permanent Secretary, Chief Economic Adviser, and Second Permanent Secretary on the action taken and its implications for both Treasury and the economy.

4.65 This has been supported by both active succession planning of individuals in key positions in the department working on financial stability issues, and an expansion in the senior management team to ensure knowledge and experience is shared and can be managed effectively between senior responsible owners.

Maintaining an audit trail

4.66 A vital part of being able to learn from experience is ensuring effective records are maintained and actively managed. During the financial crisis, the Treasury Group established a dedicated team – led by a Senior Civil Servant – to maintain good records and manage knowledge and information relating originally to Northern Rock and, later, to wider financial stability issues.

4.67 This is supported by an ongoing programme of work across the department continuously to improve the approach to knowledge management used by all staff. This has involved generating effective performance metrics, embedding behaviours that support effective knowledge management, and revised systems and processes that support staff in managing knowledge actively and effectively. Regular benchmarking is now in place across the department to track the sharing, use and exploitation of information and knowledge.

4.68 At the same time, the Treasury Group is adhering to the cross Government initiative to ensure correct and appropriate handling of data with the appointment of Senior Information Risk and Asset Owners and all information asset owners made aware of their roles and responsibilities.

4.69 The Department has been working closely with The National Archives on this in the ' What to keep' project to develop best practice. All activity is now aligned to the cross Government Knowledge Council led Knowledge and Information Strategy launched at the end of 2008 to help Government seize the opportunities and meet the challenges of the digital era.

4.70 The strategy will help develop the framework, tools and culture needed further to improve capability in knowledge and information management in a way that allows all officials to meet the challenges of delivering effective public services whilst simultaneously protecting individuals' privacy.

Effective supporting infrastructure

4.71 Supporting these efforts, the department has focused on necessary improvements to supporting infrastructure. During 2008-09, the department replaced its intranet with a new site called RedBox, which provides a central resource to manage internal information and knowledge effectively across the department. This forms part of a wider drive to revise the department's approach to internal communication, through a refreshed communications cascade and use of new media to share knowledge and experience more effectively.

4.72 The Treasury Group has an in-house IT function of 60 staff providing IT support services, IT development capability and training to the circa.1,500 staff of the Treasury Group, covering three different sites. In a recent cross-Whitehall benchmarking Treasury's IT services were in the lowest cost quartile. Over the past year, the Treasury Group has additionally established new services and support systems for UK Financial Investments Ltd quickly and effectively.

4.73 The Treasury Group has decided to make a request for resources from the Modernisation Fund to invest for the future and improve its IT systems to better meet the business needs of the department. Work on the design and specification of the new systems began in September 2008, and the first phases will be delivered during 2009-10.

DCO5: Managing the Treasury's relationship with Ministers and Parliament

4.74 The Government has acted decisively during 2008-09 to reinforce the stability of the financial system, to increase confidence and capacity to lend, and to support the economy in the short term, while at the same time ensuring a strategy was in place to maintain sound public finances in the medium term. The Treasury has worked very closely with its Ministers to ensure they were fully supported during this time, both providing clear and considered advice and also in ensuring the delivery of key decisions and judgements made by the Government.

4.75 At the same time, the Treasury has supported an ongoing constructive relationship with Parliament, particularly with the parliamentary committees, to ensure Parliament received the information it required in the right manner and at the right time.

Supporting Ministers

4.76 The Treasury continued to work effectively to support its Ministers during 2008-09. In particular, the advice provided by the Treasury and decisions made during the financial crisis helped to stabilise individual institutions quickly and efficiently (e.g Bradford & Bingley); provide system-wide support to address needs for liquidity (e.g. recapitalisation), capital and funding; and to restore confidence relating to the risks associated with banks' existing assets (e.g. Asset Protection Scheme).

4.77 As well as the response to the financial crisis, the Treasury has worked closely with its Ministers throughout the year to work towards all of its objectives - including advice upon and subsequent delivery of the Pre-Budget Report 2008 and the Budget 2009, as well as a successful meeting of the G20 Finance Ministers in Horsham in March 2009, in preparation for the London Summit of G20 leaders in April 2009.

Working with Parliament

4.78 The Treasury has a constructive relationship with parliamentary select committees, both in terms of the two committees with which the department enjoys a formal relationship, the Treasury Committee (TC) and Public Accounts Committee (PAC), but also in respect of various other committees that show an interest in Treasury business. Tables 4E and 4F set out appearances in relation to TC and PAC inquiries.

Table 4.E: Parliamentary hearings in 2008-09 - Treasury Committee

Date of hearing	Subject
14 May 2008	Child Trust Funds follow-up
4 June 2008	Budget Measures and Low-Income Households
25 June 2008	Estate Management in the Chancellor's Departments[8]
15, 22, 29 October and 26 November 2008	Administration and Expenditure of Chancellor's Departments[8]
9 & 10 December 2008	Pre – Budget Report 2008
3 November 2008, 17, 19 March and 8 July 2009	Banking Crisis
28 & 29 April 2009	Budget 2009
3 June & 9 July 2009	Evaluating the Efficiency Programme
7 July 2009	Mortgage Arrears

[8] Treasury Sub-Committee Hearing

Table 4.F: Parliamentary hearings in 2008-09 - Committee of Public Accounts

Date of hearing	Subject
28 April 2008	Managing Financial Resources to Deliver Better Public Services
14 January 2009	Central Government's Management of Service contracts
30 March 2009	Northern Rock

4.79 The Treasury has maintained a strong working relationship with the TSC through the series of formal hearings, including constructive engagement by ministers and officials throughout the sustained high profile and wide-ranging inquiry into the banking crisis. In addition the TSC undertook an informal visit to the Treasury in January 2009 for a series of various informative presentations and discussions on various topics of interest.

4.80 The Comptroller and Auditor General (C&AG), the National Audit Office (NAO) and the Committee of Public Accounts (PAC) all have distinguished records in scrutinising public spending and checking for probity, accuracy and value for money. With the demand from the public for greater transparency in the scrutiny of public spending, the Treasury is committed to working with these bodies to that end.

4.81 The Government accepted the recommendations in the Public Accounts Commission's (the Commission) Fifteenth Report on corporate governance in the National Audit Office (HC 402), and agreed to legislate to implement the recommendations. The Treasury has worked with the Commission to prepare the provisions for inclusion in the Constitutional Renewal Bill and draft clauses were considered by the Commission at its meeting on 16 December 2008. It is expected that final provisions will be included in the Bill when it is introduced in Parliament.

4.82 In addition, Treasury Ministers and officials have appeared before a number of other select committees, including giving evidence as part of the Environmental Audit Committee inquiry into the Pre-Budget report, the Lords Economic Affairs Committee inquiries into the Finance Bill and the banking crisis, the Scottish Affairs Committee inquiry into the National Minimum Wage in Scotland, and the House of Lords Barnett Committee inquiry.

Parliamentary Questions

4.83 Treasury ministers and officials are committed to providing timely and accurate responses to Parliamentary questions. In the 2007-08 Parliamentary session, which ended on 26 November 2008, and in the current session, which runs until the autumn, the Treasury has received a particularly high volume of questions. Within that context, the Treasury narrowly missed its targets for the 2007-08 session. Treasury ministers responded on or before the parliamentary deadlines in relation to 73 per cent of ordinary written questions (against the internal target of 80 per cent), 64 per cent of named day questions (70 per cent), and 90 per cent of Lords written questions (95 per cent). The Treasury has retained its targets for the 2008-09 parliamentary session, and there has been an overall improvement in performance.

DCO6: Managing the Treasury's stakeholders and communication

4.84 Close and effective working with stakeholders is fundamental to the Treasury's success in meeting its objectives. It has continued to work hard to ensure the strength its relationships with stakeholders, and is committed to further improvement in the coming year, using new data on the quality of those relationships.

4.85 In addition, the need to communicate effectively with the public has also been vitally important. The Treasury Group has continued to rely upon well-established mechanisms to manage this relationship, as well as introducing new channels for reaching the public in a different and innovative way.

Strategic communications

4.86 The demands on Treasury to provide effective communication have increased markedly during the course of 2008-09. In addition to the usual work (Pre-Budget Report 2008 and Budget 2009) and other policy areas, Treasury's communications have extended to cover work on the financial crisis, international meetings of the G20, macroeconomic support and the strategy for managing the public finances.

Box 4.E: Strengthening strategic communications

To strengthen further the Treasury's capacity to manage the communication demands being placed upon it, it has taken action to:

- Appoint a Director of Communications Strategy: this new position ensures there is sufficient senior oversight of strategic communications.
- Strengthen the Treasury Press Office: extra resources have been reallocated within the Treasury to ensure the press office have sufficient capacity to respond to demands placed upon it.
- Establish an Economic Briefing Unit: headed by a Senior Civil Servant, to ensure that the Treasury has the capacity to continue to provide consistent and up to date economic briefing across Whitehall.

Working with stakeholders

4.87 The Treasury Group works with a very wide variety of stakeholders, both within Whitehall and beyond, across all of its areas of responsibility. The Capability Review 2007 identified that the department needed to *"engage and communicate more effectively with stakeholders and other government departments to build a common purpose"*. The events of the last year have meant that many important relationships with key stakeholders – both domestically and internationally – have been put to the test.

4.88 In particular, the Treasury worked very closely with the other Tripartite authorities and administrations around the world during 2008-09 as it sought to respond to the global financial crisis. The strength of these relationships – both at an individual and institutional level – was the foundation for the successful and co-ordinated response to the instability in the markets. The Treasury is proud of its relationships with its stakeholders, and places a high value on the hard work of its stakeholders in directly contributing to the shared successes of the last year.

4.89 However, the Treasury is not complacent about the challenges of maintaining good relationships with stakeholders, the department has therefore put in place a programme of work further to improve its approach to stakeholder management, based upon better information on the quality of its working relationships.

Working with the public

4.90 This year the Treasury has made better use of new and innovative capabilities on the internet and social networks to communicate and engage with the public.

4.91 The Treasury website is one of the most valuable means of providing up to date information about the Treasury and its work. Updated regularly it provides a wide range of information about the department, statements made by the Chancellor and other Treasury Ministers, public consultations, the Treasury's wide ranging policy work and access to all of the Treasury's reports and publications. The Treasury website received over 73.9 million page views during 2008-09, including 0.4 million on Budget 2009 day alone.

4.92 The Treasury has continued to use its YouTube channel to provide behind the scenes footage of the Chancellor's public engagements, interviews with the Chancellor and Ministers on current topics and coverage of key speeches. For the second year this channel was used to provide the public with behind the scenes footage of Budget 2009.

4.93 To ensure the public can receive direct, regular and timely updates from the Treasury, this year the Treasury's Twitter channel was launched which has proved successful as followers continue to increase. It has included regular updates from Ministers attending financial summits and provided key announcements from the Budget as the Chancellor made them.

4.94 The Treasury has remained committed to ensuring that information on its work is easy to obtain. It has continued to work closely with DirectGov, using their existing communications channels to reach the public including their website, mobile phones and interactive TV.

4.95 In addition to proactive communications, the Treasury continues to work hard to respond quickly to direct requests from the public. The Treasury is proud to have maintained its impressive record on its responses to Freedom of Information (FOI) requests.

Box 4.F: Freedom of Information in the Treasury Group

During 2008, Treasury received 1410 Freedom of Information (FOI) requests, a 29 per cent increase over the total of 1090 for 2007. This increase reflects a large number of requests relating to the banking crisis and economic situation. Despite this significant increase the Treasury continued to responded in a timely manner; all but 5 requests were answered within 20 working days (or within the permitted time extension where a public interest test needed to be assessed).

The Treasury continues to be one of the best performing Whitehall departments for responding to FOI requests within 20 days. Performance statistics published by Ministry of Justice [9] show the Treasury responding to 100 per cent of requests on time.[10]

4.96 The Treasury aims to respond to at least 80 per cent of all correspondence within 15 working days of receipt. Performance against Ministerial correspondence (letters from MPs) has been falling during 2008 and 2009 to date compared to previous years. In the years 2004 to 2006 performance averaged 85 per cent, for 2008-09 performance is 60 per cent - well below the Treasury's internal target of 80 per cent. Volumes of correspondence have risen sharply since the collapse of Northern Rock, and are over 125 per cent higher than 2006 levels. While there are some signs that receipts are beginning to stabilise, Ministers received 5,200 letters in the period January to March 2009 against 16,000 for the whole of 2008-09.

[9] http://www.justice.gov.uk/publications/freedomofinformationquarterly.htm

[10] Response rate rounds to 100 per cent despite the 5 cases not answered within the 20 working days or within the permitted time extension.

DCO7: Managing the Treasury's infrastructure and estate securely and sustainably

4.97 The Treasury Group has continued to work effectively to manage its estate and infrastructure in a manner that is both sustainable and secure, in recognition of its wider commitments to both Government, Parliament and society.

4.98 In particular, a significant amount of effort has been made to improve the Group's sustainability and reduce its impact on the environment. The Treasury Group is proud of what it has achieved on sustainability during 2008-09, and will continue to focus efforts to do more in 2009-10.

Sustainability

4.99 The Treasury Group remains committed to its contribution to sustainable development, and the UK's Sustainable Development Action Plan[11], and is striving to reduce the impact of the Group's operations on the environment. Annex C provides detailed information and data on the performance of the Treasury Group on sustainability.

4.100 The Treasury Group has worked to reduce its impact on the environment during the course of 2008-09. Sessions have been held with staff to generate ideas for making the Group more sustainable, many of them being put into action, together with simple measures to encourage more sustainable everyday behaviour.

4.101 In addition, a significant amount of work has been undertaken to improve the quality of the management information available so the Group's impact on the environment can be more effectively measured and monitored, and efforts better targeted on those areas that will have the greatest impact. This is true across electricity usage, gas and fuel consumption, carbon emissions, water consumption, waste and recycling, and emissions from air and rail travel.

4.102 As a result of this, the Treasury Group's performance on sustainability has been recognised by the Carbon Trust:

Table 4.G: Carbon Trust Standard

CARBON TRUST STANDARD REDUCING CO_2 YEAR ON YEAR The Carbon Trust Standard certifies that an organisation has genuinely reduced its carbon footprint, and is committed to making further reductions year on year.	Based on year on year falls in emissions to 2007-08, and an assessment of having sound carbon management systems, the Treasury Group was awarded the Carbon Trust Standard for all of its UK operations. This includes all emissions from the estate, and from all transport used by officials and Ministers. The Treasury Group is proud to have achieved this, and is committed to maintaining the standard.

4.103 In addition, the recent report of the Sustainable Development Commission recognises the progress made by Treasury Group in recent years, rating the Group as the most environmentally friendly department in Whitehall.

4.104 Treasury Group will continue to find ways to further reduce its impact on the environment, and will consider the findings of a space optimisation study currently underway, to determine if there is a more sustainable way to make use of its estate at Horse Guards Road.

[11] http://www.sustainable-development.gov/uk/publications/pdf/SustainableProcurementActionPlan.pdf

Security

4.105 The Treasury Group remains committed to the appropriate handling of data and information, as well as the security of its estate. In 2008-09, the Group implemented the necessary security measures in response to the Data Handling Review, and are working towards full compliance with the mandatory measures contained within the Security Policy Framework. The Treasury has had no incidents of personal data losses recorded either over the last year, or in previous years.

Table 4.H: Summary of protected personal data related incidents formally reported to the information commissioner's office in 2008-09

Date of Incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
None	None	N/A	0	None
Further action on information risk	The Department will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems. Planned steps for the coming year include the promulgation of revised data handling processes in line with Cabinet Office minimum standards and guidance, and the mandatory measures contained within the Security Policy Framework.			

Source: HM Treasury

Table 4.I: Summary of other protected personal data related incidents in 2008-09

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in this table.
Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

Source: HM Treasury

5 Financial Data and Projections

Introduction

5.1 This chapter describes, through comparative tables and additional information, an overview of the finances of the Treasury Group. The data presented is based on audited accounts for 2008-09.

In this chapter

- Table 5.A summarises the Group's public spending, including both resource and capital;
- Table 5.B provides detail on resource DEL by spending body and function;
- Table 5.C analyses net Administration costs (all within DEL);
- Table 5.D provides detail of resource AME;
- Table 5.E analyses the capital budget; and
- Table 5.F summarises the Group balance sheet.

5.2 Commentary on the year on year changes in resource budgets is set out beneath Tables 5.C and 5.D. These tables show the Treasury Group's Total Resource Budget, analysed between DEL and AME. The Resource Accounts in Section 2 of this report 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. Commentary on capital movements is set out beneath Tables 5.E and 5.F.

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

Treasury Group Finances

Introduction

5.4 Treasury Group funding for the 2007 Comprehensive Spending Review (CSR) period, running from 2008-09 to 2010-11 inclusive and adjusted for transfers, was £222 million, £216 million and £205 million respectively in terms of the Resource Departmental Expenditure Limit (DEL) over the settlement period.

5.5 The settlement was delegated formally in October 2007, before global financial instability dominated the department's spending and resourcing plans for the period. The settlement therefore excludes the additional resources required as a result of Government announcements to provide additional assistance to financial institutions. For the Treasury Group this has resulted in Capital Annually Managed Expenditure (AME) of £85,525million in 2008-09 (2007-08 nil). and a related increase in Resource AME non cash expenditure as set out below. Table 5.E sets out details of the Capital AME programme analysed by individual interventions/schemes with accompanying narrative at paragraphs 5.26 to 5.31. Treasury Group's related investments can be found in Tables 5.E and 5.F.

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

5.6 Outturn against the Resource DEL limit for 2008-09 was £200 million (2007-08 £201 million). This underspend of £22m against the £222 million allocated for the year was due to the department being able to recharge much of the cost of professional and consultancy costs to banks and also due to underspends on programme expenditure including coinage manufacturing. During the year, the Treasury Group was able to divert existing resources into meeting the demands of financial stability work from additional savings generated during the year on other activities, largely in redeploying staff onto Financial Services and Economic Policy work.

5.7 For the rest of the CSR07 period (2009-10 and 2010-11) the Treasury Group has in place an agreement to access previous underspends to meet additional pressures.

5.8 The total Resource Budget outturn was £42,303 million in 2008-09 (2007-08 £226 million). The substantial increase of £42,077 million is due to the following:

- Resource consequentials (non cash AME) of financial stability interventions covering cost of capital, impairment charges and provisions of £42,360 million
- the Treasury's dividend from the Bank of England of £417 million in 2008-09 (2007-08 £81 million) being higher than average as a result of increased income due to an increase in the Bank's profitability. Allowing for cost of capital charges which increased by £32million in the year (Table 5.D), the net gain on the Treasury's investment in the Bank was £291 million in 2008-09 (2007-08 £12.5 million cost);
- an impairment charge of £9 million in 2008-09 (£15 million upward revaluation in 2007-08) on the 1 Horse Guards Road building based on indices as supplied by the Valuation Office.

Overview of the Comprehensive Spending Review Settlement and the Group's Spending Plan for 2008-09 to 2010-11

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

5.10 Within resource DEL, between 1.5 and 2 per cent of the budget for 2009-10 and 2010-11 is currently held in the Departmental Unallocated Provision (DUP). Resources have been delegated to budget managers across the Treasury Group according to the strategic priorities for 2009-10. In allocating these budgets, a contingency has been retained at the centre (the DUP) which will be used to address additional pressures during the year.

5.11 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 2007 settlement, and approval in principle has been secured to use this to upgrade the IT infrastructure and systems from the Spending Team against the outline business case. This will be drawn down in 2009-10 subject to approval and timing of the detailed business cases.

Table 5.A: Total departmental spending (resource and capital) for HM Treasury Group

£ million	Para ref	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Plan 2009-10	Projection 2010-11
Resource DEL									
Core Treasury & GSS[2]	*5.12*	135	138	139	136	135	140	150	141
DMO		8	7	8	7	10	13	10	10
Coinage	*5.18*	21	18	17	19	16	15	21	20
OGC		20	19	41	33	31	24	23	23
Other functions	*5.20*	10	10	10	10	9	8	8	8
DUP[3]								4	3
Total Resource DEL		**194**	**191**	**215**	**206**	**201**	**200**	**216**	**205**
Of which: Near-cash		190	198	204	195	200	192	217	206
Resource AME									
Financial stability	*5.22*						42,360	735	-81
Impairment charges	*5.22*		-11	-5	1	-15	9		
Coinage	*5.23*	13	16	16	25	24	24	34	36
Bank of England	*5.24*	77	57	36	1	13	-291	53	55
Other functions	*5.20*	2	2	2	2	2	2	2	2
Total Resource AME		**92**	**64**	**50**	**29**	**24**	**42,103**	**824**	**12**
Of which: Near-cash		-17	-24	-30	-58	-56	-2,558	-16	-17
Total Resource Budget[4]		**286**	**255**	**265**	**236**	**226**	**42,303**	**1,040**	**217**
Of which: depreciation		8	-6	1	9	6	18,350	8	8
Capital DEL									
Core Treasury & GSS[2]	*5.27*	3	-26	6	2	1	2	4	3
DMO		1	1	1	1	1	1	1	1
OGC			-3	-16	-3	-3			
DUP[3]								2	3
Total Capital DEL Budget		**4**	**-28**	**-9**	**-1**	**-1**	**3**	**7**	**7**
Capital AME[5]									
Core Treasury					-1				
Assistance to financial institutions	*5.30*						85,525	21,247	155
Total Capital AME Budget					**-1**		**85,525**	**21,247**	**155**

[2] GSS = Group Shared Services.
[3] DUP = Departmental Unallocated Provision.
[4] Excludes Pool Re non-budget income of £92 million but includes non-voted Civil List expenditure of £10 million. Adjusted Resource Budget = £42,201 million
[5] Capital AME is set out in **Table 5.E** with an explanation at paragraph 5.30

£ million	Para ref	Outturn						Plan	Projection
Total departmental spending		**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Core Treasury & GSS		127	104	136	121	116	109,686	22,896	206
DMO		8	7	7	8	11	14	11	11
Coinage		34	34	33	44	40	38	53	54
OGC		20	16	27	32	28	24	25	24
Bank of England		77	57	36	1	13	-291	13	105
Other functions		16	14	15	17	11	10	15	13
DUP[3]								6	6
Total departmental spending[6]		**282**	**232**	**254**	**225**	**219**	**109,481**	**23,019**	**419**
Total DEL		190	157	200	197	195	197	990	204
Resource AME		92	75	54	27	24	23,759	783	60
Capital AME							85,525	21,247	155

Resource Departmental Expenditure Limit (DEL) including Administration Costs

Table 5.B: Resource DEL for HM Treasury Group

£ million	Para ref	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Plan 2009-10	Projection 2010-11
Core Treasury & GSS		**135**	**138**	**139**	**136**	**135**	**140**	**151**	**141**
Net administration costs, including GSS	*5.12*	122	120	120	118	128	121	132	124
Financial Inclusion Fund (admin)	*5.14*			1	1	1	1		
Banking and gilts registration	*5.15*	12	15	10	12	11	11	13	13
Other core Treasury programme costs	*5.16*	1	3	8	4	-4	7	6	5
DMO		**8**	**7**	**8**	**7**	**10**	**13**	**10**	**10**
Net administration costs		7	6	8	7	8	10	9	8
Net programme costs		1	1		1	1	3	2	2
Coinage	*5.17*	**21**	**18**	**17**	**19**	**16**	**15**	**20**	**20**
OGC		***20***	***19***	***41***	***33***	***31***	***24***	***25***	***24***
Net administration costs		20	23	32	33	22	23	23	22
OGC Restructuring Costs						10	1	2	2
Residual estate			-5	1					
Efficiency Challenge Fund			1	8					
Other functions	*5.20*	**10**	**10**	**10**	**10**	**9**	**8**	**8**	**8**
Grants to Statistics Commission and Parliamentary bodies	*5.21*	2	2	2	2	1			
Civil List (net)	*5.20*	8	8	8	8	8	8	8	8
Departmental Unallocated Provision								4	3
Total Resource DEL		**194**	**192**	**215**	**206**	**201**	**200**	**216**	**205**

[6] 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.

£ million	Para ref	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Plan 2009-10	Projection 2010-11
Of which:									
Near-cash, of which		190	198	204	195	200	192	217	206
Pay		82	85	91	98	94	91		
Goods and services		93	99	97	86	103	90		
Grants and subsidies									
Depreciation		8	-3	6	8	6	6	*8*	*8*

Table 5.C: Administration costs for HM Treasury Group

£ million	Para ref	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Plan 2009-10	Projection 2010-11
Gross administration costs		**167**	**166**	**185**	**185**	**197**	**213**	**181**	**171**
Related administration cost receipts		-19	-17	-24	-25	-37	**-59**	-16	-15
Total net administration costs		148	**149**	**161**	**160**	**160**	**154**	**165**	**156**
Analysis by activity									
Core Treasury & GSS	*5.12*	**121**	120	121	120	130	**123**	132	124
DMO		7	6	8	7	8	**9**	9	8
OGC		**20**	23	32	33	21	**22**	24	23
DUP								2	1
Total net administration costs		148	**149**	**161**	**160**	**160**	**154**	**165**	**156**
Gross administration costs include:									
Paybill		82	85	91	99	94	**91**		
Other		**85**	81	93	86	103	**122**		
Core Treasury and GSS includes:									
Consultancy[5]	*5.12*	**6.16**	4.91	6.10	3.44	17.65	**48.03**		
Travel and subsistence		1.94	2.11	2.32	2.48	2.32	2.36		
DMO includes:									
Consultancy[5]		0.52	0.77	0.58	0.34	0.23	**0.07**		
Travel and subsistence		0.04	0.03	0.04	0.03	0.06	0.06		
OGC includes:									
Consultancy		4.22	5.71	7.66	5.59	6.27	**6.55**		
Travel and subsistence		1.55	1.72	2.04	2.40	1.78	1.49		
Gross administration costs		**167**	**166**	**185**	**185**	**197**	**213**	**181**	**171**

[5] 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.

Core Treasury and Group Shared Services (GSS)

5.12 The costs in Table 5.B relate to work across all the Group's objectives, described in Chapters 1,2 and 4 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 CSR07 account for around £2 million of costs in each of 2003-04 and 2006-07. In Table 5.C, under Core Treasury and GSS, there is a significant increase in consultancy spending from 2007-08 onwards as a result of work in connection with wider Financial Stability measures. The cost of this consultancy work was recovered from the relevant institutions and the income Appropriated in Aid wherever possible. The further increase in 2008-09 is primarily as a result of financial interventions and further information on the costs incurred can be found within the Resource Accounts in section 2.

5.13 The plan for 2009-10 and projection for 2010-11 relate to the remainder of the CSR07 period showing the costs of the core Treasury plus Group Shared Services falling in nominal terms (and faster in real terms) on business as usual costs. Further detail on planned savings is shown in para 5.33 onwards.

5.14 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. A two year pathfinder scheme costing £12 million jointly funded by the Treasury and the FSA was announced on 3 March 2008, and provides the detail on how this scheme will operate. Funding for the Treasury's contribution to the pathfinder project is included in the Main Estimate for 2008-09.

5.15 Banking and gilts registration costs comprise the fees paid to the Bank of England for management of the UK's foreign currency reserves, and fees for gilts registration services (increase this year) 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.

5.16 The increase in Other Core Treasury programme costs in 2005-06 includes spending on the UK's joint presidencies of the G7 and G8, and spending on the promotion of retail savings products. In 2008-09 it included spending on preparatory work for the G20 Conference and expenditure on wider financial stability staffing costs of £4.6 million.

Coinage (DEL and AME)

5.17 The stock of finished coins awaiting issue stood at just £5.8 million as at the balance sheet date. The budgetary impact of the stock purchase is reflected in the Treasury's DEL. In line with the Royal Mint's other customers, the Treasury moved from paying for coins upon issue to paying for them upon production. As part of this change, the Treasury purchased the existing stock of finished coins in November 2007. In exchange for the move to buying stock on production, the Treasury was able to obtain a discount on the manufacturing price. The Service Level Agreement provides that stock production will be per an agreed schedule, with an agreed stock buffer. This arrangement results in timing differences for the Treasury's Net Cash Requirement, however the Royal Mint's stock holding and consequent working capital requirement are reduced.

5.18 Table 5.B includes the manufacturing costs of coinage (£15 million in 2008-09) as DEL spend, a decrease of £0.5 million in manufacturing costs compared to the previous year. Coinage metal costs (classified as AME and shown in Table 5.D) increased by £0.3million to £24 million, due to higher prices in the first half of 2008-09. Quarterly metal purchasing policy resulted in a lag before reduced prices were realised through the Treasury's DEL.

5.19 The total number of coins issued by the Treasury in 2008-09 decreased to 1.4357bn compared to 1.5028bn coins in 2007-08.

Other functions

5.20 The "Other Functions" section of the table includes costs borne by HM Treasury for historical reasons. The Civil List (together with the Royal Household Pension Scheme, which is within AME and is shown in Table 5.A) is a Standing Service of the Consolidated Fund i.e. 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 5.B. Pending negotiation of the new settlement, the projection for 2010-11 shows a continuation of the current £8,259,000 net figure.

5.21 In 2006-07, budgetary responsibility for the salaries and pensions of UK Members of the European Parliament (previously a charge of around £7 million a year on the Treasury's DEL) passed to the Cabinet Office. From 2007-08, funding for grants to the four Parliamentary bodies (around £3 million a year payable to the Commonwealth Parliamentary Association, the British-American Parliamentary Group, the Inter-Parliamentary Union and the British-Irish Parliamentary Union), passed to the House of Commons Commission with a corresponding reduction in the Treasury's DEL. From 1 April 2008, the Statistics Board has taken on the functions of the Statistics Commission and the Treasury's funding for the Statistics Commission has transferred to the Board accordingly.

Table 5.D: Resource AME budget for HM Treasury Group, by spending body

		Outturn						Plan	Projection
£ million	**Para ref**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Core Treasury: impairment charges/ credits	*5.22*	**-**	**-11**	**-5**	**1**	**-15**	**9**	**-**	**-**
Coinage	*5.23*	**13**	**16**	**16**	**25**	**24**	**24**	**32**	**34**
Metal costs		11	13	15	23	24	24	29	31
Cost of capital		2	4	1	2	4	3	3	3
Royal Mint Dividend						-4	-4		
Net cost of investment in the Bank of England	*5.24*	**77**	**57**	**36**	**1**	**13**	**-291**	**13**	**105**
Cost of capital		107	95	83	84	94	126	160	155
Dividend receivable		-30	-38	-47	-83	-81	-417	-147	-50
Other functions: Royal Household Pension Fund	*5.20*	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Financial Stability:									
Other							-2,754	-764	
Cost of capital							809	1,500	
Impairment charges	5.22						18,926		
Provisions	5.22						25,379		
Total Resource AME		**92**	**64**	**50**	**29**	**24**	**42,103**	**783**	**93**
Of which:									
Near-cash, of which		-17	-24	-30	-58	-60	-2,558	-356	-17
Pay		2	2	2	2	2	-	2	2
Goods and services		11	13	15	23	19	24	20	31
Depreciation and impairments		-	-11	-5	-1	-15	18,344	-	-

Core Treasury: impairment charges/credits and provisions

5.22 Asset revaluations and impairments, in which further information can be found in the Resource Accounts in section 2, shown in Table 5.4 include:

- Financial Stability impairment charges of £18,926 million. These primarily relate to the impairments on the quoted investments held by HM Treasury which have been marked to market at year end notes 31.4 and 32.4 in the Resource Accounts in section 2 sets out the detail of these impairments;
- Provisions of £25,379 million, largely comprising the provisions for future expected losses on the Asset Protection Scheme. Further information on these provisions can be found in note 19 in the Resource Accounts; and
- £9 million impairment charge on 1 Horse Guards Road for 2008-09 (see note 11.2 in the Resource Accounts).

Coinage

5.23 Cost of metal used to produce UK circulating coinage is discussed in the preceding section (para 5.18). 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 was raised to 7.2 per cent as the benefits of restructuring begin to be realised and the Mint returns to surplus.

Net cost of investment in the Bank of England

5.24 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 central 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 charge is based on a rate of 4.94 per cent, which is the post tax equivalent of the Bank's 6.0 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).

5.25 The 2006-07 dividend included an exceptional amount relating to the settlement of £74 million received by the Bank from the liquidators and receivers of BCCI. A dividend of £81million in 2007-08 was due to an increase in Bank of England activities, which has continued as dividend for 2008-09 was £417 million. The 2008-09 dividend reflects the increased activities of the Bank of England and the demands placed on the Bank by the continuing financial crisis and development sin the global economy. Projections for 2009-10 onwards prudently assume an upward trend in the net cost of investment. The investment in the Bank contributes to DSO1 as described in chapter 2.

Capital Budget

Table 5.E: Capital budget for HM Treasury Group

£ million	Para ref	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Plan 2009-10	Projection 2010-11
Capital DEL									
Core Treasury including GSS		**3**	**-26**	**6**	**2**	**1**	**2**	**4**	**3**
Administration	*5.27*	3	-26	6	2	1	2	4	3
Investments				6					
Debt Management Office		1	1	1	1	1	1	1	1
Office of Government Commerce:[7] Residual Estate and Whitehall Systems			-3	-16	-3	-3			
Departmental Unallocated Provision								2	3
Total Capital DEL		**4**	**-28**	**-9**	**-1**	**-1**	**3**	**7**	**7**
Capital AME	*5.30*								
Financial Stability:									
Northern Rock Refinancing of loan							18,781		
Bradford & Bingley statutory debt							4,095		
Bradford & Bingley Working Capital facility							6,000		
Bradford & Bingley loan asset							321		
Kaupthing statutory debt							550		
Heritable statutory debt							45		
Icesave (Landsbanki) debt							800		
Dunfermline statutory debt							1,555		
Recapitalisation of banks (RBS; LBG)							36,926		
FSCS loan advances							20,999		
Capital repayments							-4,547		
Total Capital AME							**85,525**		

[7] 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 5.F: Capital employed by HM Treasury Group

£ million	Para ref	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Non-current assets	*5.30, 5.31*	**1,710**	**1,743**	**1,880**	**2,000**	**2,439**	**72,924**
Of which							
Land & buildings		106	100	105	102	110	98
IT assets		4	8	7	5	5	5
Other tangible assets		15	3	4	4	2	2
Debtors falling due after more than one year							2,691
Derivative financial instruments							19
Financial assets		1,585	1,632	1,764	1,889	2,322	70,109
Current assets		**78**	**104**	**74**	**111**	**122**	**3,073**
Creditors (<1 year)		**-83**	**-106**	**-98**	**-125**	**-138**	**-1,971**
Creditors (>1 year)		**-145**	**-147**	**-150**	**-153**	**-158**	**-162**
Financial liabilities							**-3,225**
Derivative financial instruments							**-467**
Provisions		**-28**	**-16**	**-14**	**-16**	**-18**	**-25,394**
Capital employed		**1,533**	**1,577**	**1,692**	**1,818**	**2,247**	**44,778**

5.26 Table 5.E deals with Capital DEL and Capital AME expenditure. From 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 was mainly on operational IT assets until 2008-09. Since then, the Capital AME programme has covered HM Treasury's financial stability interventions.

5.27 In Capital DEL, 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. In 2007-08, capital outturn includes disposal proceeds of £2 million in respect of the sale of land and buildings at Thistle Street, in Edinburgh. 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 credit for 2004-05 is the capital receipt of £11 million for the transfer of the Whitehall heating and standby power systems to Buying Solutions offset by the issue of the loan for £8 million to Buying Solutions to facilitate the transfer. The credit 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 Buying Solutions. The £3 million credit for 2006-07 and 2007-08 were further repayments of the same loan which, as at 31 March 2008, was fully paid off.

5.28 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.

5.29 The Debt Management Office's capital spending contributes to DSO1. The Office of Government Commerce's capital spend contributes to DSO1. Core Treasury and GSS capital spend contributes to all DSOs.

Financial Stability Interventions included in Capital AME

5.30 In response to the financial instability of the global economy, HM Treasury has established or supported a number of interventions/schemes including the purchase of investments in the bank and building society sectors, the provision of funding to the Financial Services Compensation Scheme, the Asset Protection Scheme, the Credit Guarantee Scheme, the Asset Backed Securities Scheme and supporting the Bank of England's Special Liquidity Scheme and Asset Purchase Facility Fund. Further information on all these schemes can be found in the Resource Accounts in section 2, notes 29 to 38. Contingent liabilities relating to guarantees and indemnities given by HM Treasury in connection with these schemes/interventions are required to be disclosed under financial reporting standards and are fully explained in note 27 to the Resource Accounts.

Other financial assets and liabilities

5.31 These include:

- The investment in the shareholding in the Bank of England is valued in line with the bank's net assets at £3.321 billion at 28 February 2009;
- Investments in Partnerships UK (£23.5 million) representing bonds held at nominal vale and equity at net asset value;
- Buying Solutions (£0.35 million); and
- Royal Mint (£5.5 million).
- The operational offices used by the core Treasury, OGC and DMO since 2002-03 (£110 million). A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999;
- The long term creditor, since 2002-03, for the 1 Horse Guards Road PFI contract (£162 million).
- The fall in the value of other tangible fixed assets from 2004-05 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.

Payment of Suppliers

5.32 Prior to November 2008, 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. From November 2008, the government introduced a 10 day payment target for SME suppliers to receive payment. Treasury Group achieved a performance of 95 per cent against the 30 day target (compared to 95 per cent for 2007-08) and 92 per cent for the 10 day target which the Group extended to all suppliers rather than restricting it to SMEs.

Value for Money in the CSR 2007 period

5.33 The Treasury Group's settlement for the CSR 2007 period is challenging one: a reduction in both resource and capital DEL spending of 5 per cent per year in real terms, which is consistent with the cross-government aim to achieve at least 3 per cent net cash releasing savings, on the 2007-08 baseline budgets for near-cash resource and capital. Delivering these savings will mean becoming a smaller and more efficient Group, focused on priority areas with the right systems in place to support and enable staff to deliver its objectives. The Treasury Group's work on financial stability is subject to value for money criteria but is not formally part of the department's VfM programme. The VfM programme shown therefore relates to the Group's ongoing operations on a 'business as usual' basis.

5.34 Treasury Group published its VfM Delivery Agreement in December 2007, setting out how it expected to achieve £30 million of further savings over the CSR period. Budget 2009 announced plans to increase this to £35 million by 2010-11, through participation in the Operational Efficiency Programme and other initiatives.

5.35 The Treasury Group published a revised VfM Delivery Agreement in July 2009, setting out how it will achieve its revised value-for-money plans by 2010-11. This is available from the Treasury website, alongside the original VfM Delivery Agreement from December 2007[8].

Sir Nicholas Macpherson
Permanent Secretary
15 July 2009

[8] http://www.hm-treasury.gov.uk/d/vfmdeliveryagreement090709.pdf

A Public Service Agreement Targets – 2004 Spending Review

A.1 This annex provides performance information for those PSA targets still live from SR2002 and SR2004.

A.2 The Treasury Group has four targets outstanding from these earlier spending reviews:

- PSA5 – Employment
- PSA7 – Child Poverty
- PSA8 – Global Prosperity including:
    - Heavily Indebted Poor Countries (HIPCS) ; and
    - Lisbon Goals
- PSA9 – Public Services

Reporting Terminology

A.3 SR2004 Spending Review targets have a different rating terminology to that of the CSR 2007 DSOs and PSAs.

Table A1 Final Assessment Terminology

Term	Usage
Met	Target achieved by the target date.
Met-ongoing	For older open-ended 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.

Table A2 Interim Assessment Terminology

Term	Usage
Met early	Target has been met ahead of schedule.
Met – ongoing*	Target is live, but measured on a continuous basis.
Ahead	Progress is exceeding plans and expectations.
On course	Progress 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.

Summary of performance against outstanding SR2002 and SR2004 PSA targets

	PSA Target	Assessment
PSA5 SR2004	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate. (Joint target with Department for Work and Pensions (DWP).)	On Course
PSA7 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 target with DWP.)	Slippage
PSA8 (ii)a	Promote increased global prosperity and social justice by: 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;	Not Met
PSA8 (iii)	Promote increased global prosperity and social justice by: working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008	Slippage
PSA9 (i) SR2004	Improve public services by working with departments to help them meet their Public Service Agreement (PSA) targets, consistently with fiscal rules. (Joint target with the Cabinet Office.)	Slippage

A.4 In this report only one target (PSA8 (ii)a HPICS has received a final assessment.

A.5 Reporting against the Child Poverty target will in future reports be subsumed into the CSR2007 reporting framework.

A.6 The following tables provide a more detailed explanation of performance against these outstanding targets.

PSA5 - Employment	
SR2004 Target	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate (Joint target with (DWP).)
Performance Indicator	The target is measured using the seasonally adjusted employment rate (the proportion of the population of working age (16-59 for females and 16-64 for males) who are in employment) in Great Britain (GB), based on the International Labour Organisation (ILO) definition with a judgement as to the economic cycle, as assessed by the Treasury in the Budget and Pre-Budget Report.
Outturn SR2004	On Course
Commentary SR2004 target	The baseline for the 2004 Spending Review target is 2005Q2[1] (April-June 2005), at which time the GB employment rate for the working age population of Great Britain (GB) was 74.9 per cent. The GB employment rate in 2008Q2 was 74.9 per cent.. Progress on this target is measured taking account of the economic cycle. As set out at the time of the *2008 Pre-Budget Report (PBR)*[2], the latest National Accounts data, taken together with the evidence from the range of cyclical indicators monitored by the Treasury, supports the assessment that the economic cycle judged to have started in the first half of 1997 ended during the second half of 2006. The National Audit Office (NAO) has audited the Treasury's judgement that the last economic cycle ended in the second half of 2006, finding that taking all the evidence available as a whole, it is reasonable to conclude currently that the second half of 2006 marked the end date of the most recently completed economic cycle. There is a significant degree of uncertainty surrounding the cyclical position of the economy. The second half of 2006 represents the most recent adjudged on-trend point and so estimates of the trend employment rate since this point are not yet available. A final assessment cannot therefore be made on this target.
Quality of data systems	UK labour market figures for employment and unemployment are taken from the Labour Force Survey (LFS) and are published by the Office for National Statistics (ONS). The definitions used in the LFS are based on internationally agreed standards set by the ILO.
Risks	Economic downturn will put increased pressure on Jobcentre Plus and welfare to work programmes. The Treasury continues to work with DWP on monitoring and improving Jobcentre Plus performance, and assessing the potential pressures on delivery under a sustained increase in the claimant count ensuring there is the appropriate balance between plans for tackling economic inactivity and the need to maintain low levels of unemployment.

[1] The Office for National Statistics is now publishing Labour Force Survey data on a calendar quarter basis , instead of the seasonal quarter previously used. The baselines of this target has therefore been changed and reflected in the technical note.

[2] More details of the Treasury's assessment of the economic cycle are set out in *Evidence on the economic cycle*, published alongside the 2008 Pre-Budget Report.

Future Plans	Building on both the fiscal stimulus, which will help support employment across the economy and the £1.3bn employment package announced at PBR 2008, Budget 2009 announced a further package of help for individuals. This includes an additional £1.7bn to be set aside for the DWP to ensure Jobcentre Plus and Flexible New Deal programmes have the capacity to respond effectively to rising unemployment and that the Government continues to support those most at risk of long-term detachment from the labour market. Budget 2009 announced a jobs package giving a guaranteed offer of a job, work placement or work-focused training for all 18-24 year olds who have claimed Jobseeker's Allowance for 12 months. This will include 100,000 additional jobs through the newly created Future Jobs Fund, 50,000 traineeships in the care sector, through Care First, and a further 50,000 traineeships in other key sectors. Work-focussed training and a Community Task Force programme will also be available. Budget 2009 also announced funding for an additional 50,000 jobs for people aged 25 and over in areas of high unemployment across the country. These will also be made available through the Future Jobs Fund. Budget 2009 also provides further employment opportunities through investment in the UK's infrastructure and also sets out measures to support businesses and therefore employment.

PSA7 – Child Poverty	
SR 2004 Target	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).)
Performance indicator	PSA target 7 has two measures: the number of children in households with income less than 60 per cent of contemporary median compared with 1998-99; and the number of children in households with income less than 70 per cent of contemporary median, combined with material deprivation. Low income is defined before housing costs and is reported annually in Households Below Average Income (HBAI)[13]. The baseline for the less than 60 per cent of median income target is 3.4 million children.
Outturn SR2004	Slippage
Commentary SR2004 target	Between 1998-99 and 2007-08 relative child poverty fell by 500,000 children from 3.4 to 2.9 million. In 2007-08 there were 2.2 million children in combined material deprivation and low income poverty. In 2004- 05 (the baseline year) there were 2.2 million children in combined material deprivation and low income poverty. While this indicator has shown no change over the period as a whole, it fell to 2.0 million children in 2006 - 07. The recent increase is likely to be due to high prices, particularly the high cost of fuel, over the period in question. Energy prices have fallen from their peaks, with the average household energy bill estimated to be 7 per cent lower as a result of cuts announced in early 2009. Measures announced over the last four fiscal events will lift around a further 500,000 children out of relative poverty.
Quality of data systems	Performance against this target is assessed using the annual HBAI report published as National Statistics by DWP.
Risks	It is possible that child poverty targets could become more challenging because of a) rising parental worklessness as a result of the downturn; and b) parental incomes falling and parents not claiming all of the financial support on which they are entitled to rely. To mitigate against these risks, the DWP are taking steps to help maintain employment and Government is taking action to ensure that families claim all the support to which they are entitled.
Future Plans	Cross Reference to Chapter 4 PSA9 Child Poverty / Reporting against this target will be subsumed into the CSR2007 PSA9.

PSA8(ii) – HPICS	
SR 2004 Target	Promote increased global prosperity and social justice by: (ii) a: ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC)[16] committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008.
Performance indicator	Number of countries reaching Completion Point as recorded HIPC Initiative: Status of Implementation, available on the World Bank website.
Outturn SR2004	Not Met
Commentary SR2004 target	23 countries (82 per cent) reached HIPC Completion Point by end 2008. It would have taken 25 countries to meet the target. We reported in the 2008 Autumn Performance Report that two countries, Burundi and Guinea, were likely to reach Completion Point by the end of 2008 or shortly thereafter. Burundi reached Completion Point on 29 January 2009. However, in Guinea, the death of the President triggered a coup on 23 December 2008. The country will move towards HIPC Completion Point when an internationally recognised government is able to direct the benefits of relief to poverty reduction. Overall, good progress has been made on improving countries' debt positions: 35 out of 41 eligible countries are now receiving debt relief and over $110 billion (£60bn) has been committed since 2000 under HIPC & the Multilateral Debt Relief Initiative.
Quality of data systems	Decision Point and Completion Point for countries in the HIPC Initiative are determined by the Boards of the IMF and the World Bank and are made public on the websites of these institutions.
Risks	Many of the remaining countries are experiencing difficulties such as conflict or weak governance. The future rate of progress is therefore likely to be slower than in the past. However, the IMF and World Bank report that countries continue to make progress and several have good prospects for reaching Completion Point in 2009. The Government will continue its efforts to press for flexibility to support countries through HIPC while ensuring that savings from debt relief will benefit poor people.
Future Plans	This is the final assessment of this target. Further progress on debt relief forms part of the delivery of PSA 29.

PSA8(iii) – Lisbon Goals	
SR2004 Target	Promote increased global prosperity and social justice by: (iii) working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008.
Performance indicator	Progress is measured using Eurostat data for the total EU employment rate (against an EU target of 67 per cent by 2005 and 70 per cent by 2010) and the percentage difference between US and EU labour productivity per hour and per worker.
Outturn SR2004	Slippage
Commentary SR 2004 Target	Eight years into the EU's ten-year programme of structural reform, there is slippage against this target. There is a significant risk that Europe will fail to fully achieve fully the strategic ambitions of the Lisbon Strategy, particularly its aim of achieving 70 per cent employment rates across the EU by 2010. At 65.9 per cent in 2008, EU employment remains well below this target, having missed the interim target of 67 per cent employment rates by 2005. The UK met the interim target with employment at 71.7 per cent in 2005, and 71.5 per cent in 2008. Since 1999, one year before the Lisbon process began, EU 27 employment has risen by 4.1per cent. While part of this appears to have been driven by structural improvements, some may also be cyclical. As employment is falling as a result of the global economic situation, there may be further slippage in the coming period. The productivity gap between the EU and the US has been increasing in the last few years. Using the latest available data, the productivity gap on a per worker basis (EU27) increased from 37.6 per cent in 2002 to 41.8 per cent in 2008. On a per hour basis it rose from 30.0 per cent in 2002 to 35.0 per cent in 2005. Based on this analysis and the current economic climate, two years away from the original 2010 deadline, it is clear that the Lisbon Goals will not be realised in full. The EU and its Member States still need to implement significant economic reforms to improve the flexibility of products, capital and labour markets and to encourage greater investment in human capital and innovation. These reforms will also allow Europe to respond to the current economic downturn effectively. The current focus in the EU and in Member States is rightly on supporting the economy and responding to the financial crisis by helping people and businesses affected by the economic downturn. The design of these policies should be fully consistent with the longer-term objectives of the Lisbon Strategy, in particular by resisting protectionist tendencies and continuing to promote open markets, competition and flexicurity. While domestic structural reforms remain the primary responsibility of individual Member States, the Government has engaged proactively with its EU partners to encourage progress towards the goals of the Lisbon Strategy. For example, the UK has led efforts across Member States to mainstream the Better Regulation and globalisation agendas into EU policymaking. The UK has also strongly supported a European Economic Recovery Programme that responded both to the current economic and financial crisis, was consistent with long-term Lisbon objectives and which bolstered structural reform. The Government will continue to work with its EU partners to accelerate economic reform in Europe, for example by being actively involved with ongoing discussions in the EU on a successor to the Lisbon Strategy beyond 2010. The UK strongly supports an ambitious strategy that would raise prosperity, increase opportunity for all and ensure sustainable low-carbon resource-efficient growth.
Quality of Data Systems	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. Outturn data is subject to a time lag due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication. The productivity date has been rescaled for the EU27 and so cannot be compared to previous releases based on EU25 = 100.

Risks	That further economic and financial shocks hinder progress in tackling the economic downturn and advancing long-term reform.
Future Plans	This target will continue to be assessed until data for 2010 is available

PSA9 – Public Services	
SR 2004 Target	Improve public services by working with departments to help them meet their; Public Service Agreement (PSA) targets (joint with the Cabinet Office) consistently with fiscal rules.
Performance Indicator	Departmental progress towards PSA targets and efficiency delivery is reported biannually in the (spring) Departmental reports and Autumn Performance Reports. This performance information can be accessed through a single website[3]
PSA Element Outturn SR2004	Slippage
PSA Element Commentary SR2004 target	The Treasury supports departments in their work to achieve their SR2004 PSA commitments but ultimate responsibility for delivery remains with departmental Secretaries of State. 87 per cent of SR2004 PSAs were given an overall summary assessment by departments in their 2008 Autumn Performance Reports. Of those, almost half were reported as met, met-ongoing, ahead or on course, and progress has also been made on other targets with 22 per cent being partly met. This outturn represents significant progress towards these targets. However, for this overall target to be fully met '100 per cent' of individual SR2004 PSAs must be met or partly met. There has been some slippage against such an ambitious aim. Presently 17 per cent of targets are rated as slippage and 13 per cent not met.
Quality of Data Systems	The data systems underpinning PSA targets are validated by the National Audit Office. Efficiency Technical Notes set out the measures and methodologies the departments use to assess efficiency gains. These can be found on the Treasury' website.
Risks	Departments are unable to deliver the scale and pace of progress needed to achieve SR04 PSAs.
Future Plans	The Treasury continues to work closely with departments to support them in their work to achieve their SR2004 PSA commitments.

[3] http/www.hm0treasury.gov.uk/documents/public-spending-reporting/public service- etc

B Treasury Group Corporate Governance

B.1 The corporate governance of the Treasury Group is designed to ensure that members of the Group are directed and controlled effectively, and supported in delivering their objectives. The Treasury Board manages the Group in a manner which enables the constituent parts and their individual management boards to run the day-to-day business of the Treasury, with the Board providing strategic input, direction and leadership, as well as oversight of risk. The Treasury Board, its Committees, their membership and their remits are described in this annex.

B.2 The Treasury Group complies with the provisions in the Corporate Governance Code of Good Practice[1] and aims to ensure it has the most effective and efficient corporate governance framework possible.

Treasury Board

B.3 The Treasury Board takes decisions on strategic matters that relate to the Treasury Group. Its aim is to lead a Treasury that delivers its objectives and targets now and in the future. In order to maximise its effectiveness in doing so, the Board evaluates its remit and performance annually and most recently did so at its meeting on 10 June 2008. The Board met formally nine times in 2008-09. Its membership during that period is shown in Table B.A.

Table B.A: Treasury Board Membership as at 31 March 2009

Executive Members	
Sir Nicholas Macpherson	Permanent Secretary.
Tom Scholar	Second Permanent Secretary and Joint Managing Director, International and Finance.
Andrew Hudson	Managing Director, Public Services and Growth.
Mark Neale	Managing Director, Budget Tax and Welfare.
Stephen Pickford	Joint Managing Director, International and Finance.
Dave Ramsden	Chief Economic Adviser to the Treasury and Managing Director, Macroeconomic and Fiscal Policy.
Louise Tulett	Group Director of Finance, Procurement and Operations
Nigel Smith	Chief Executive of the Office of Government Commerce.
Ray Shostak	Head of Prime Minister's Delivery Unit and Performance Management.
Independent Members	
Dame Deirdre Hutton	Chair of the Food Standards Agency.
Sir Callum McCarthy	Former Chairman of the Financial Services Authority[2]
Michael O'Higgins	Chairman of the Audit Commission.
Sir William Sargent	Chief Executive of Framestore and former chair of the Better Regulation Executive[3].

1 http://www.hm-treasury.gov.uk/d/daocorpgovernancecode.pdf
2 Sir Callum McCarthy retired as Chairman of the Financial Services Authority in September 2008

B.4 During 2008-09 the membership of the Treasury Board changed as some members stepped down. Former members are shown in Table B.B.

Table B.B: Former Members of the Treasury Board during 2008-09

Executive Members	
John Kingman (until November 2008)	Second Permanent Secretary and Managing Director, Public Services and Growth.
Independent Board Members	
Stella Manzie (until June 2008)	Stella Manzie was Chief Executive of Coventry City Council until June 2008, and is now Director General, Finance & Corporate Services, Scottish Executive.

B.5 The Treasury ensures that all of the appointments it makes, both public and departmental, adhere to the highest standards of propriety. All appointments to the Treasury 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. Independent members receive both formal and informal inductions on appointment and receive a monthly information pack highlighting ongoing work in the Treasury. The Permanent Secretary holds meetings with the independent members following each Board meeting: individual executive Board members meet Treasury Ministers on a regular basis.

B.6 The Board delegates decision making on some day-to-day issues to its supporting committees (detailed below) These committees have group compositions to enable full and wide discussion on relevant group issues.

B.7 A short summary of discussions at each Board meeting can be found on the Treasury's website[4] and minutes are available to staff on the Treasury intranet.

Executive Committees

B.8 The Treasury's responsibilities expanded in 2008-09 with the adoption of a number of new initiatives undertaken in response to unprecedented turmoil in financial markets and the impact on the economy. The Treasury Board has established a new committee, the Group Delivery Committee to provide strategic oversight over the implementation of these initiatives. As such, the Treasury Board is now supported by six committees:

- Group Operations Committee;
- Group Finance Committee;
- Group Delivery Committee;
- Group Executive Committee;
- Group Resource Audit Committee; and,
- Group Exchequer Funds Audit Committee.

B.9 Each committee has responsibility for monitoring and managing risks within its delegated area, escalating risks to the Board where appropriate. The chairs of each committee report on the work of their committees at each Board meeting.

[3] Sir William Sargent previously served as an executive member of the Cabinet Office Board and stepped down as chair of Better Regulation Executive on 1 June 2009.
[4] http://www.hm-treasury.gov.uk/about_treasury_board.htm

B.10 The **Group Operations Committee** is accountable to the Board for operational issues, as delegated under their terms of reference. The Group Operations Committee is chaired by Mark Neale, Managing Director of Budget, Tax and Welfare, and met eleven times in 2008-09.

B.11 The **Group Finance Committee**'s purpose is to ensure good financial management in Treasury Group including monitoring monthly financial information; and it advises the Board on major financial decisions including resource allocation. John Kingman, second Permanent Secretary and Managing Director of Public Services and Growth, chaired the Group Finance Committee from April 2008 until November 2009. Dave Ramsden, Managing Director of Macroeconomic and Fiscal Policy, became chair of the committee following John Kingman's departure. It met eleven times in 2008-09.

B.12 The **Group Delivery Committee** provides strategic oversight of Treasury's major operational projects. The Group Delivery Committee is chaired by the Permanent Secretary and met for the first time in March 2009.

B.13 The **Group Executive Committee** (GEC) provides a forum for decision-making on urgent Group-wide issues required between Board meetings, the Permanent Secretary chairs this Committee. The GEC meets on an ad-hoc basis and did not meet in 2008-09.

B.14 The **Group Resource Audit Committee** (GRAC) supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities for managing risk, internal control and governance, related to the Group's Resource Account. The Permanent Secretary appoints members of the Committee for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee, Michael O'Higgins, reports directly to the Permanent Secretary. The membership of the Committee during 2008-09 is shown in Table B.C.

Table B.C: Group Resource Audit Committee Membership as at 31 March 2009

Independent Members	
Michael O'Higgins	Chair from October 2008 and independent member of the Treasury Board.
Colin Thwaite	Former Finance Director and Chief Executive of Littlewoods Organisation plc, Leisure Division.

B.15 During 2008-09 the GRAC membership changed as some members stepped down previous members are shown in Table B.D.

Table B.D: Former Members of the Group Resource Audit Committee during 2008-09

Independent Members	
Stella Manzie (until June 2008)	Stella Manzie was Chief Executive of Coventry City Council until June 2008, and is now Director General, Finance & Corporate Services, Scottish Executive.
Sir William Sargent (until April 2009)	Committee Chair until October 2008 and independent member of the Treasury Board.

B.16 Since 31 March 2009, further changes to the Group Resource Audit Committee membership have taken place Sir William Sargent stepped down as a member of the Committee on 31 March 2009

B.17 In addition to the independent members, the Permanent Secretary, Director of Finance, Procurement and Operations, the Chief Executives of the OGC and DMO, and the Treasury Risk Improvement Manager also attend GRAC meetings. Before each GRAC meeting, members have the opportunity for pre-committee discussion with the NAO and the Group Head of Internal Audit. The GRAC met four times in 2008-09.

B.18 The **Exchequer Funds Audit Committee** (EFAC) supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities in all matters relating to the: Debt Management

Account; Public Works Loan Board; Commissioners for the Reduction of the National Debt; Exchange Equalisation Account; National Loans Fund; Consolidated Fund and the Contingencies Fund. The Permanent Secretary appoints members of the Committee for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the committee, Colin Price, reports directly to the Permanent Secretary. The membership of the Committee during 2008-09 are shown in Table B.E.

Table B.E: Exchequer Funds Audit Committee Membership as at 31 March 2009

Independent Members	
Colin Price	Chair, non-executive member of the DMO’s Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pension Management Services Limited
Brian Larkman	Non-executive member of the DMO’s Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc
Mark Clarke	Formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform

B.19 The appropriate Accounting Officers attended meetings of the EFAC as relevant. The EFAC met four times in 2008-09.

Other Committees

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

B.21 In HM Treasury, an **Executive Management Group** (chaired by the Permanent Secretary and consisting of HM Treasury executive members of the Board) has met weekly to discuss current issues and make decisions required between Board meetings on issues affecting HM Treasury.

B.22 **OGC's Board** (chaired by the OGC Chief Exective, Nigel Smith and comprising three Executive Directors, 3 Non-Executive Directors and the Chief Executive of Buying Solutions) met 4 times in 2008-09. Nigel Smith also chaired OGC's Operations Committee. The OGC Operations Committee is a sub-committee of the OGC Board with responsibility for tracking and managing OGC's performance against its targets and milestones. It met eight times during 2008-09.

B.23 **DMO’s Managing Board** (chaired by the DMO Chief Executive, Robert Stheeman and comprising three additional Executive members and three Non-Executive Directors, including a Treasury representative) is responsible for strategic, operational and management issues at the Agency. It met eight times in 2008-09. Further information is available in the DMO and DMA Report and Accounts 2008-09.

Whistle Blowing and Internal Assurance

B.24 The Group Head of Treasury Internal Audit is the nominated officer for the Treasury’s whistle blowing policy and he has direct access to the Chairs of both the Audit Committees. He was nominated by the Permanent Secretary under the Treasury’s fraud policy.

B.25 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.

Arms-length bodies

Buying Solutions

B.26 On 6 April 2009 OGCbuying.solutions changed its name to Buying Solutions. Buying Solutions is a trading fund and an Executive Agency of the OGC, which is itself an Office of the Treasury. The Chief Executive and Accounting Officer of Buying Solutions is Alison Littley. The Chief Executive of OGC appoints the Chief Executive of Buying Solutions.

B.27 The relationship between the Treasury and Buying Solutions, much of which is conducted through OGC, is laid out in an Agency Framework document that is subject to periodic review. Each year, the OGC CEO sets key performance targets for Buying Solutions which are approved by the Exchequer Secretary to the Treasury.

B.28 The Treasury Permanent Secretary is Principal Accounting Officer, but day-to-day running of OGC and Buying Solutions is delegated to the OGC CEO.

B.29 The management of Buying 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 Commercial Delivery Board, meetings between the OGC Chief Executive and the Treasury Permanent Secretary, and close working relations between OGC and the Treasury's Public Services and Growth Directorate. More information on Buying Solutions can be found on its website[5].

United Kingdom Financial Investments Limited

B.30 The Government has made commercial investments in UK financial institutions to help stabilise their position and support the long-term strength of the economy (see chapter 2 and section 2 Resource Accounts for more details). A wholly owned Government company, United Kingdom Financial Investments Limited (UKFI), was set up on 3 November 2008 to manage these investments.

B.31 UKFI's remit is to:

- manage the investments commercially to create and protect value for the taxpayer as shareholder; and
- devise and execute a strategy for disposing of the Government's investments in an orderly and active way over time.

B.32 A Framework Document[6] between UKFI and HM Treasury sets out the shareholder relationship between the two bodies. HM Treasury:

- may appoint the Chairman of the Board and two senior Government officials as Directors;
- has authorisation over the appointment of other members of the Board proposed to be appointed by the Board's Nominations Committee and has authorisation over the terms on which each Director is appointed, remunerated and incentivised;
- through the establishment of the Framework Document and an Investment Mandate, determines the high level objectives that the Company is designed to achieve;
- must approve the Business Plan and any subsequent updates or amendments to it;

[5] http://online.ogcbuyingsolutions.gov.uk
[6] http://www.ukfi.gov.uk/downloadfile.php?ArticleID=17

- requires that the Board is accountable to it for adhering to the Business Plan, complying with the Investment Mandate and delivering the objectives set out in the Framework Document;
- gives the Board the normal commercial freedom to take the action necessary to adhere to the Business Plan, comply with the Investment Mandate and fulfil and deliver the objectives set out in this Framework Document;
- is able to monitor the Company's performance to satisfy itself that the Business Plan is being adhered to, the Investment Mandate is being complied with and the objectives set out in this Framework Document are being delivered and carried out; and
- must give its consent for certain significant actions.

B.33 More details on UKFI can be can be found in its annual report and on its website.[7]

Royal Bank of Scotland and Lloyds Banking Group

B.34 As at 30 March 2009, UKFI managed investments in two financial institutions:

- Royal Bank of Scotland (RBS). Holdings comprising £5 billion in preference shares and 57.9 per cent of the company's ordinary shares, with an agreement to refinance the preference shares with ordinary shares which could take the Government's stake up to 70 per cent;
- Lloyds Banking Group (LBG). Holdings comprising £4 billion in preference shares and 43.4 per cent of the company's ordinary shares;

B.35 Details of UKFI's management of these investments may be found in its annual report.

Northern Rock and Bradford & Bingley

B.36 Two further, wholly-owned investments are being managed directly by HM Treasury until responsibility transfers to UKFI during 2009:

- Northern Rock. Northern Rock was taken into temporary public ownership on 22 February 2008.
- Bradford & Bingley. Following the sale of Bradford & Bingley's UK and Isle of Man retail deposit business along with its branch network on 29 September 2008, the remainder of Bradford & Bingley's business was also taken into public ownership. The remaining assets and liabilities of Bradford & Bingley principally comprised its mortgage book, personal loan book, headquarters and relevant staff, and treasury assets and wholesale liabilities.

B.37 The Treasury is both a shareholder and a creditor for both banks (the FSCS is also a creditor for Bradford & Bingley). Framework Documents[8,9] agreed between both companies and HM Treasury set out the shareholder relationships. Both companies will implement business plans[10] that take into account the Tripartite Authorities' stated objectives: to protect taxpayers, to promote financial stability, and to protect consumers.

B.38 Under the framework documents, the Treasury:

- appoints the Chairman of the Board for both companies and Non-Executive Directors (two for Northern Rock in consultation with the Chairman; one or more for Bradford & Bingley);

[7] http://www.ukfi.gov.uk/
[8] http://www.hm-treasury.gov.uk/d/nr_shareholder_framework_310308.pdf
[9] http://www.hm-treasury.gov.uk/d/bradford_bingley_shareholder_framework.pdf
[10] http://companyinfo.northernrock.co.uk/downloads/Summary_of_Proposed_Business_Plan.pdf

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

B.39 Both companies operate corporate governance structures that, as far as appropriate, take account of best practice for companies listed on the Official List, including the Combined Code on Corporate Governance. Each continues to operate an Audit Committee, a Risk Committee (Audit and Risk Committees are combined for Bradford & Bingley), a Remuneration Committee and a Nominations Committee.

The Bank of England

B.40 The Bank of England is the UK's central bank and is responsible for: maintaining stable prices and confidence in the currency; and detecting and reducing threats to the financial system as a whole.

B.41 The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998)[11]. Part 1 of the Act sets out the constitution, regulation and financial arrangements for the Bank, including the requirements for the Bank to report annually to the Chancellor on its activities and its accounts. The Act provides for a Court of Directors and a Committee of Non-executive Directors ('NedCo') within Court. Court is responsible for managing the Bank's affairs, other than in the formulation of monetary policy. This includes determining the Bank's objectives and strategy, and aiming to ensure the most efficient use of the Bank's resources. NedCo has responsibility for reviewing the Bank's performance in relation to its objectives and strategy, monitoring the extent to which the Bank's financial management objectives are met, and reviewing the Bank's internal controls. The Court consists of the Governor, two Deputy Governors and up to 9 Non-executive Directors. All are appointed by the Crown on a recommendation of the Prime Minister, as advised by the Chancellor. The Governor and Deputy Governors are appointed for a period of five years and the Directors for three years. The Chancellor appoints the non-executive chairman of Court and NedCo.

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

B.42 The Banking Act 2009 introduced a number of important reforms to the governance of the Bank of England. These included: giving the Bank of England a statutory objective to contribute to protecting and enhancing the stability of the financial systems of the United Kingdom; changing the governance

[11] http://www.bankofengland.co.uk/about/legislation/1998act.pdf

structures to support these new responsibilities, including the creation of a new Financial Stability Committee; and modernising the operations of Court, reducing the maximum size from 19 down to 12 members. The Banking Act received Royal Assent on 12 February 2009 and these reforms were implemented on 1 June 2009.

B.43 The statutory provisions are supplemented at an operational level with several written memoranda of understanding and service level agreements setting out definitions of how the relationship functions across different areas, and the duties and responsibilities of key players. More information on the Treasury's relationship with the Bank of England as part of the Tripartite arrangements between the Treasury, the Bank of England and the Financial Services Authority can be found in Chapter 2 of this report. More details of the work of the Bank of England can be found on its website.[12]

Royal Mint

B.44 The Royal Mint's primary purpose is the provision and maintenance of UK coinage. It also provides coinage services to overseas central banks and mints. It also manufactures official medals and collectables for both the UK and overseas retail and wholesale markets.

B.45 The Treasury has both a shareholding and a customer relationship with the Royal Mint. The Chancellor of the Exchequer is Master of the Mint. The Chancellor has delegated responsibility to the Exchequer Secretary who sets performance and financial targets; the day-to-day shareholding responsibilities are delegated to the Shareholder Executive.

B.46 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 Exchequer Secretary on the Royal Mint's financial performance - both achieved and prospective - twice each year. The Chancellor appoints the Deputy Master of the Mint (CEO) and non-executive members of the board, the Deputy Master appoints executive members; no member of staff from the Treasury or Shareholder Executive sits on the board of the Royal Mint.

B.47 The customer relationship is governed by a Service Level Agreement that sets out the arrangements for the supply of UK coinage. More information on the Royal Mint can be found on its website[13].

Partnerships UK

B.48 Partnerships UK (PUK) is the successor body of the Treasury Taskforce, which was created in 2000 as a central support body for the UK's Private Finance Initiative.

B.49 It is a public/private partnership that assists governments and other public bodies in the UK and elsewhere in the development, procurement, financing, implementation and management of private finance and public/private partnership projects. It does this by entering into joint ventures, participating in public/private partnership projects with private persons or by acting as an investor, financier, consultant, or otherwise. It also promotes the development and use of public/private partnerships generally.

B.50 The private sector has a 51 per cent majority shareholding in the company, and the public sector has a 49 per cent investment (HM Treasury 45 per cent, Scottish Executive 4 per cent).

B.51 The Treasury has two relations with PUK, as a major shareholder and as a customer of PUK services. The Treasury's two functions are separately administered.

[12] http://www.bankofengland.co.uk
[13] http://www.royalmint.com

B.52 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.

B.53 A five-year Framework Agreement, last agreed in 2005, governs the Treasury's client relationship with PUK under which an annual budget for PUK services over each of the years of the contract term is established.

B.54 The Treasury's obligations in relation to risk management are covered through two arrangements; firstly through its shareholder rights, and secondly through the Advisory Council. The Treasury's shares in PUK give the Treasury the right to nominate two Non-executive Directors to sit on the PUK Board which meets monthly (with separate meetings of the Investment, Audit and Remuneration Committees). The Non-executive Directors ensure that the Treasury can monitor and influence strategic direction as well as the delivery of financial objectives and value for money.

B.55 The Treasury also coordinates the Advisory Council, which is currently chaired by the Treasury's Permanent Secretary, and consists of representatives from Government Departments, including: the Treasury; the Devolved Administrations; local authorities; and other public bodies. The role of the Advisory Council is to advise the Treasury on whether PUK is achieving its public sector mission. The Advisory Council meets twice a year and produces a report on PUK's activities which is published by the Treasury and available on the PUK website[14].

Pool Re and Pool Re (Nuclear)

B.56 Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. More information on Pool Re can be found on its website[15].

B.57 Pool Re is a mutual company, limited by guarantee. The Treasury is responsible for appointing one Director to the Boards of Pool Re and Pool Re (Nuclear), who is, in addition to statutory responsibilities as a Director, responsible for considering the public interest.

Public appointments

B.58 The Treasury has relatively few public appointments compared to many other Government departments. Responsibility for individual campaigns is delegated to sponsor teams within the Treasury, with the Permanent Secretary's office retaining overall responsibility for those appointments and for standards of propriety.

B.59 During 2008-09 the Treasury was responsible for 15 public appointments of Non-Executive members of the Court of the Bank of England. The Office of the Commissioner for Public Appointments (OCPA) regulates all of these appointments. For these appointments the Treasury follows the Commissioner's guidance as set out in their Code of Practice for Ministerial Appointments to Public Bodies and uses the code as best practice for a number of other appointments that do not officially fall within OCPA's remit.

B.60 During 2008-09, the Treasury reappointed four non-executive members of the Court of the Bank of England. The Treasury also reappointed the Governor of the Bank of England and appointed two new Deputy Governors, although these appointments fall outside of the OCPA remit.

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[14] http://www.partnershipsuk.org.uk
[15] http://www.poolre.co.uk

B.61 In February 2009 appointments of Commissioners of the Crown Estate were added to the list of OCPA-regulated public appointments. This covers the Chairman, the CEO and six Non-Executive Directors. In this period no Commissioners have been appointed.

B.62 Until 31 March 2008 appointments to the Board of the Statistics Commission, a Non-Departmental Public Body of the Treasury, were regulated by OCPA. On 1 April 2008 the Statistics Commission was superceded by the UK Statistics Authority, which is an independent body operating at arm's length from the Government as a non-ministerial department, directly accountable to Parliament. As such, the Treasury is no longer responsible for these appointments.

B.63 Treasury Ministers are also responsible for a number of other appointments that are not regulated by the Commissioner for Public Appointments, including:

- the Chair and Non Executive Directors of the Board of the Financial Services Authority;
- the Non Executive Directors of the National Savings and Investments Board;
- members of the Public Works Loan Board; and
- four external members of the Bank of England's Monetary Policy Committee.

B.64 In order to ensure fairness in its public appointments processes, the Treasury ensures that all advertising welcomes applications from suitably qualified under represented groups. For example, Braille and audio copies of application forms are available for all public appointments vacancies.

B.65 The Treasury's appointment policies are guided by the Government's overall commitment to equal representation of women and men, pro-rata representation of ethnic minorities and the increased participation of disabled people. Over the coming year, the Treasury will continue to work with sponsor bodies to explore ways in which its approach to diversity and to appointments generally, can be improved.

C Sustainable Development

C.1 The Treasury Group is committed to Sustainable Development, contributing to the UK's Sustainable Development Action Plan[1], and striving to reduce the impact of the Group's operations on the environment.

Governance

C.2 The Director of Corporate Services and Group Director of Finance and Procurement are jointly responsible for improving the sustainable operations of the Treasury Group. There are direct reporting chains between the Directors and those teams that oversee estates, transport and procurement, and work together to integrate sustainability into procurement and operations.

Estate

C.3 At 1 Horse Guards Road, the Treasury works closely with its PFI contractor, Exchequer Partnership (EP), which is responsible for managing building services. They operate and maintain an Environmental Management System (EMS) and maintain ISO 14001 which are part of the contractual agreement. Core Treasury and OGC co-located all their staff in 1 Horse Guards Road in October 2007.

C.4 At Rosebery Court (Norwich site), the OGC works closely with MITIE who provide total facilities management of the building.

C.5 DMO lease space in Eastcheap Court, London with a shared occupancy in a managed building. Availability of information depends on the building managers, and some information is not available at the time of going to print.

C.6 Treasury Group also lease space in Leeds where 10 OGC employees are based. It is not included in the figures in Tables C.A to C.D as the floorspace occupied by OGC is small and therefore the environmental impact is not material to the overall group. However initiatives and policies adopted across the Group are also implemented in this office.

C.7 In Tables C.A to C.F , figures have been rounded for standard reporting purposes, but the percentage variances have been calculated from the underlying detailed data.

[1] http://www.sustainable-development.gov.uk/publications/pdf/SustainableProcurementActionPlan.pdf

Energy consumption and carbon emissions

Table C.A: Treasury Group electricity usage 2006-07 to 2008-09 (MWh)

	2006-07	2007-08	2008-09	Percentage variance on 2007-08
1 Horse Guards Road	7092	6655	6905	3.8
Rosebery Court	2222	2146	2461	14.7
Trevelyan House[2]	2243	1416[3]	-	-100
Eastcheap Court	Not available	Not available	Not available	Not available

Source: 1 HGR EMS data, RC Mitie supplied data.TH, bills

C.8 Electricity consumption fell every year since the move by HM Treasury into 1 Horse Guards Road in 2003 until 2007-08. Over the last year, the rise in consumption in 1 HGR is partially explained by higher building occupancy, as greater numbers of staff now use the building, and due to the challenges tackled by the department over the last year have placed demands upon consumption. During the year, the Carbon Trust examined energy consumption in 1HGR, and made a number of recommendations, that when implemented over the next year is expected to reduce significantly electricity consumption.

C.9 In October 2008, at the end of the existing electricity supply contract, the department switched contracts, to purchase one within Buying Solutions framework. This guarantees, at no additional cost, at least 10 per cent will be generated from renewable sources, and 15 per cent from 'good quality' Combined Heat and Power (CHP). This is excellent value for money, as it allows investment in measures that ultimately reduce electricity, rather than paying a premium for renewable energy, and which increasing provision is supported by other government interventions. Participation within this larger buying framework, means that the amount of renewable electricity attributed to the Treasury may fall during the course of the contract, but the amount procured by Buying Solutions overall for all users of the contract rose by an additional 100m KWh each year.

C.10 In Rosebery Court, consumption rose in the first part of the year, primarily due to maintenance to bring out of service chillers back on-stream. Investment was made in spilt A/C units that separate areas that contain servers that requiring cooling from the rest of the office, so that non-essential cooling can be turned off during weekends and non core hours. Also installed Automatic Meter Reading (AMR) and Building Management System (BMS) software to allow active monitoring and management. In the second part of the year, as these measures and investments started to take effect, and there was a strong fall in consumption, that if maintained, is likely to see a significant fall in 2009-10.

C.11 Taking into account the electricity used in Trevelyan House, vacated by OGC in 2007, the Treasury Group's overall consumption fell in 2008-09.

[2] OGC staff working in Trevelyan House were relocated into 1 Horse Guards Road in September 2007. The occupancy of Trevelyan House was made up from 60 per cent OGC and 40 per cent other non HM Treasury Group tenants

[3] Figures are to September 2007

Table C.B: Treasury Group gas and other fuel consumption 2005-06 to 2007-08 (MWh)

	2006-07	2007-08	2008-09	Percentage variance on 2007-08
1 Horse Guards Road	2,867	2,813	3,000	6.6
Rosebery Court	2,167	2,192	2,035	-7.2
Trevelyan House[4]	837	12[5]	-	-100
Eastcheap Court	Not available	Not available	Not available	Not available
Source: 1 HGR EMS data, RC Mitie supplied data.TH, bills				

C.12 1 Horse Guards Road uses the Combined Heat and Power Plant (CHP) from the Whitehall District Heating system for all of its heating requirements during the winter months, and the electricity generated from burning gas for heating is sold to the National Grid for general electricity supply. Gas is used for catering facilities, and a small amount of diesel fuel is used for a back up electricity generator. The winter of 2008-09 was, according to the Metrological Office[6], the coldest for more than 10 years, and this is the main reason for the rise in consumption. During 2008-09, in 1 Horse Guards Road, the temperature at which the heating switches on was reduced by 1 degree C, and measures were taken to maintain a consistent building temperature of 21 degrees C.

C.13 Rosebery Court installed an air re-circulation system to capture heated air rather than expelling from the roof, while the split a/c units reduced the load on the boilers. These and other measures achieved a very significant reduction, even with the cold winter temperatures.

Table C.C: Carbon emissions from estate 2005-06 to 2007-08 (t CO^2)

	2006-07	2007-08	2008-09	Percentage variance on 2007-08
1 Horse Guards Road	4378	4209	4427	5
Rosebery Court	1582	1547	1698	10
Trevelyan House[7]	1347	755	-	-100
Eastcheap Court	Not available	Not available	Not available	Not available
Source: Calculations using data in tables C.A and C.B and emissions factors				

C.14 Carbon emissions have been calculated using Defra greenhouse gas conversion factors. These figures do not include emissions saved from the generation of electricity through CHP. The Treasury is committed to becoming carbon neutral across the estate by 2012, and aims to improve energy efficiency and reduce emissions year on year, to reduce the need to offset.

[4] OGC staff working in Trevelyan House were relocated into 1 Horse Guards Road in September 2007

[5] Figure to September 2007

[6] http://www.metoffice.gov.uk

[7] OGC staff working in Trevelyan House were relocated into 1 Horse Guards Road in September 2007

CARBON TRUST STANDARD

REDUCING CO2 YEAR ON YEAR

The Carbon Trust Standard certifies that an organisation has genuinely reduced its carbon footprint, and is committed to making further reductions year on year.

Based on year on year falls in emissions to 2007-08, and an assessment of having sound carbon management systems, **the Treasury Group was awarded the Carbon Trust Standard for all of its UK operations.** This includes all emissions from the estate, and from all transport used by officials and Ministers. The Treasury Group is proud to have achieved this, and is committed to maintaining the standard.

Water consumption

Table C.D: Treasury Group water usage 2006-07 to 2008-09 (m^3)

	2006-07	2007-08	2008-09	Percentage variance on 2007-08
1 Horse Guards Road	18,308	16,555	16,678	0.7
Rosebery Court	Not available	2,304[8]	2,359	2.4
Trevelyan House[9]	5,600	2,920	-	-100
Eastcheap Court	Not available	Not available	Not available	Not available

Source: 1 HGR EMS data, RC Mitie supplied data.TH, bills

C.15 In 1 Horse Guards Road, water has fallen by more than 15 per cent since the first year of full operation of the building in 2004/05, reductions in water usage have been achieved through active monitoring to identify and reduce leakages, adjusting facilities to reduce the water used, and a communications strategy to encourage staff to conserve water and close working with service providers. The performance in 2008-09 maintains the level of the previous year, despite higher building occupancy, and visitor numbers.

C.16 In Rosebery Court steps have been taken to reduce water usage, including reducing flush times and installing AMR to monitor and actively manage consumption and there is ongoing communication with staff to increase awareness of water use.

[8] These estimates have been derived from infrequent readings over 2007 and 2008. AMR from October 2008 will improve the quality of these figures in future years.

[9] OGC staff working in Trevelyan House were relocated into 1 Horse Guards Road in September 2007

Waste and Recycling

Table C.E: Waste and Recycling in 1 Horse Guards Road 2006-07 to 2008-09 (tonnes)

	2006-07	2007-08	2008-09	Percentage variance on 2008-09
Recycled Waste				
Cardboard	20	20	11	-45
Paper	136	160	172	7
Glass	12	16	10	-40
Plastic	1	4	6	34
Aluminium cans	1	1	4	176
Cooking oil	2	2	2	9
Furniture	17	91	19	-79
Total Recycling	189	294	224	-24
Reused waste				
Food waste[10]	0	3	21	541
Waste sent to landfill	250	220	241	9
Total Waste	440	518	485	-6
Percentage waste not sent to landfill	43	58	50	
Source: 1 HGR EMS data				

[10] Food waste in the restaurant is separated and sent to a bio-gas plant where it is used to produce fertiliser and electricity, reducing carbon emissions and waste sent to landfill.

Table C.F: Waste and Recycling in Rosebery Court 2006-07 to 2008-09 (tonnes)

	2006-07[11]	2007-08	2008-09	Percentage variance on 2008-09
Recycled Waste				
Cardboard	4	9	11	22
Paper	26	44	47	7
Glass	0	0	0[12]	Not applicable
Plastic	0	0	3[13]	Not available
Aluminium cans	0	0	-[13]	Not available
Cooking oil	0	0	0	0
Furniture	0	0	0	0
Total Recycling	30	53	62	17
Reused waste				
Food waste	0	0	0	0
Waste sent to landfill	30	41	30	-27
Total Waste	60	94	91	-3
Percentage waste not sent to landfill	50	56	67	

Source: Mitie supplied information

C.17 In 1 Horse Guards Road, a switch from June 2008 from using bottled mineral water to reusing water bottles filled within the building from purified mains water led to a fall in glass waste. Efforts by suppliers have reduced cardboard waste. A strategy to increase recycling by greater availability of bins and clearer signage for staff has continued to see increases in recycling, although higher building density led to an increase in waste being sent to landfill.

C.18 Rosebery Court has continued to increase the level of recycling over the last year, introducing glass recycling from October 2008, and by compacting waste so it can be picked up less frequently, have reduced carbon emissions arising from vehicle travel from waste contractors.

C.19 At the moment DMO do not receive information about waste from the management company in the leased building where they are tenants. DMO will be investigating the availability of information, and putting an improved recycling system in place.

[11] 2006-07 figures only cover September 2006 to April 2007

[12] Glass recycling was introduced in October 2008 and 0.42 tonnes were recycled during 2008-09.

[13] Due to a change in supplier, this is the total weight of recycling of plastic and aluminium cans, and separate figures are not available at this time. They are recycled separately.

Travel

C.20 Staff are actively encouraged to consider the need for travel, and to consider using videoconferencing facilities. All emissions from flights are offset through the Defra Carbon Offsetting fund scheme. The data in Tables C.G and C.H are provided by the department's travel suppliers. Figures for road related emissions are not currently available.

C.21 Carbon emissions have been calculated using Defra greenhouse gas conversion factors. Overall, carbon emissions from air and rail travel by the Treasury Group fell over the year. Whilst this was primarily due to changes to the level of travel, some journeys previously taken by domestic and short-haul flights have been switched to rail, and this has contributed to the overall reduction in emissions.

Table C.G: Treasury Group air travel 2006-07 to 2008-09 (1000 miles)

		2006-07	2007-08	2008-09	Percentage variance on 2007-08
HM Treasury[14]	Domestic	129	96	86	-11
	Short-Haul	504	372	332	-11
	Long-Haul	2824	1590	1608	1
OGC	Domestic	244	139	70	-49
	Short-Haul	17	36	43	21
	Long-Haul	65	60	103	73
DMO	Domestic	2	2	5	150
	Short-Haul	9	15	9	-40
	Long-Haul	33	76	71	-7

Table C.H: Treasury Group rail travel 2006-07 to 2008-09 (1000 miles)

	2006-07	2007-08	2008-09	Percentage variance on 2007-08
HM Treasury	687	609	737 [15]	21
OGC	704	628	444	-29
DMO	17	15	13	-13

Table C.I: Treasury Group Emissions from air and rail travel 2006-07 to 2008-09 (t CO2)

	2006-07	2007-08	2008-09	Percentage variance on 2007-08
HM Treasury	1289	775	778	0
OGC	171	136	116	-14
DMO	17	35	32	-9

[14] These figures have been substantially revised from previous years reporting, due to significant errors in information provided by the department's travel supplier.
[15] Changes to supplier systems during the year mean that this estimate is likely to overstate the number of miles. Systems put in place from April 2009 will improve data quality for future reporting.

D Recommendations by the Committee of Public Accounts

D.1 Central guidance requires departments to report on the recommendations made by the Committee Public Accounts PAC) where the department is the principle party to respond

- Since 2002 there have been 14 PAC Reports that have made recommendations requiring action by the Treasury Group.

Table D.A: Recommendations for HM Treasury (core Treasury)

Date of Publication	Title of Report
11 July 2002	2002 – 42nd PAC Report: Managing the relationship to secure a successful partnership in PFI projects
17 July 2002	2002 – 43rd PAC Report: The use of funding competitions in PFI projects – The Treasury Building
13 June 2003	2003 – 22nd PAC Report: PFI refinancing update
19 June 2003	2003 – 28th PAC Report: Delivering better value for money from the Private Finance Initiative
16 July 2003	2003 – 35th PAC Report: PFI construction performance
14 June 2005	2005 – 20th PAC Report: PFI: the STEPS deal
15 May 2007	2007 – 25th PAC Report: Update on PFI debt refinancing and the PFI equity market
27 November 2007	2007 – 63rd PAC Report: HM Treasury - tendering and benchmarking in PFI
2 September 2008	2008 – 36th PAC Report: HM Treasury - making the changes in operational PFI projects
9 September 2008	2008 – 43rd PAC Report: **Managing financial resources to deliver better public services**
25 June 2009	2008 – 31st PAC Report: Nationalisation of Northern Rock

Table D.B: Recommendations for other parts of the Treasury Group

Date of Publication	Title of Report
14 October 2004	2004 – 41st PAC Report: Improving departments capability to procure cost effectively
20 July 2006	2006 – 55th PAC Report: Progress in improving Government Efficiency
19 June 2007	2007 – 31st PAC Report: Central Government's use of consultants
26 June 2007	2007 – 33rd PAC Report: Assessing the value for money of OGCbuying.solutions
11 October 2007	2007 – 48th PAC Report: Progress update on the Efficiency Programme
28 May 2008	2008 – 22nd PAC Report: Improving the efficiency of central Governments use of office property
28 April 2009	2009 – 17th PAC Report: Central Government's use of service contracts

Table D.C: 41st PAC Report - Session 2003-04 Improving Departments capability to procure cost effectively, (14 October 2004).	
PAC Recommendation (1): Departments should appoint a commercial director with an appropriate professional qualification who has responsibility and oversight for all commercial dealings with the private sector. He or she should be a member of, or report to, the department's management board, as in the case in five departments, including the department of Work and Pensions. For smaller organisations this function should be assigned to a designated board member, as part of their responsibilities.	Departments are directly responsible for implementing this recommendation.
Table D.D: 63rd PAC Report – Session 2006-07 HM Treasury: tendering and benchmarking in PFI, (27 November 2007).	
PAC Recommendation (3): The Treasury and Departments should assess the impact of the new procurement regulations by mid-2008 including whether they have reduced the incidence of late changes to deals.	The Treasury has started work on assessing the impact of Competitive Dialogue and expects to complete the assessment by Autumn 2009.

E The Parliamentary Ombudsman

Complaint handling by the Treasury

E.1 Members of the public who are dissatisfied with the service provided by the department or a member of staff can complain direct to the Treasury. Guidance on how to do this is available on the Treasury's website. Complaints can be made in writing, by telephone or face to face.

E.2 The Treasury treats all complaints seriously. It records them and monitors the response the response to them to ensure that the department learns from them as appropriate.

E.3 The Treasury aims to reply within 15 working days to formal complaints, and offers to put things right as fits the case. The complainant is informed of progress if things take longer.

E.4 Those who are not satisfied after a second response can ask for the case to be referred to the Permanent Secretary. After that, they have the right to ask their MP to take the case up with the independent Parliamentary and Health Service Ombudsman.

The Parliamentary and Health Service Ombudsman

E.5 The Parliamentary and Health Service Ombudsman can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf.

E.6 The Annual Report 2007-08 by the Parliamentary and Health Service Ombudsman[1] indicates that for the Treasury Group there were two complaints in hand at 1 April 2007 and these remain in hand at 1 April 2008 There were no additional complaints accepted by the Parliamentary Ombudsman during the year 2007-08.

Equitable Life

E.7 The Parliamentary Ombudsman published her report into the prudential regulation of Equitable Life on 17 July 2008. The Government responded on 15 January 2009. In the response, the Government accepted some cases of maladministration and that injustice had also occurred in some cases. The Government accepted the Ombudsman's recommendation that it should apologise for maladministration, but it did not accept her recommendation that compensation should be paid.

E.8 The Government did recognise, however, that some Equitable Life policyholders may have suffered a disproportionate impact from those cases of maladministration which it accepted, and signalled its intention to set up an ex gratia payments scheme.

E.9 The Government has asked retired judge Sir John Chadwick to advise on aspects of the scheme, including the proportion of any losses attributable to the Government, as opposed to market conditions or the actions of Equitable Life or others. Sir John is also advising on what factors the Government should take into account when assessing disproportionate impact, and what losses may have been incurred by different classes of policyholder as a result of those cases of maladministration which the Government accepts.

[1] www.ombudsman.org.uk/improving_services/annual_reports/ar08/fig_19.html

Section 2:

Resource Accounts

Resources Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Resource Accounts and Departmental Report presented to the House of Lords by Command of Her Majesty

Statement of accounting officer responsibilities

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

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

3. HM Treasury has appointed me as Principal Accounting Officer of the Department with overall responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

4. In preparing the accounts, I am required to comply with the Government Financial Reporting Manual prepared by HM Treasury, and in particular to:

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

ii) make judgements and estimates on a reasonable basis;

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

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

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

6. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Chapter 3 of Managing Public Money (MPM), published by the Department.

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

Statement on internal control 2008-09

Scope of responsibility

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

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

The purpose of the system of internal control

3. The system of internal control is designed to manage risk to a reasonable level rather than 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.

4. The system of internal control is designed to:

- identify and prioritise the risks to the achievement of departmental policies, aims and objectives;
- evaluate the likelihood of these risks being realised;
- assess the potential impact of these risks;
- manage these risks in order to achieve effective and efficient operations, reliable financial reports and compliance with appropriate laws and regulations; and
- safeguard the department's assets

5. The system of internal control for the Treasury Group is regularly reviewed and is subject to ongoing improvements.

The risk and control framework and capacity to manage risk in the Treasury Group

6. The Treasury Group has had an exceptional year, with the adoption of a number of new initiatives undertaken in response to unprecedented turmoil in financial services markets and the impact on the

[1] Comprising HM Treasury, the Office of Government Commerce and the United Kingdom Debt Management Office.
[2] Annex 4.1 http://www.hm-treasury.gov.uk/d/mpm_whole.pdf

economy. As a result, HM Treasury's risk profile has changed significantly throughout the year and the control framework has had to be developed accordingly.[3]

7. The often urgent need for intervention has meant that policy has developed quickly and often in a way that challenges the existing framework. The risks include, for example:

- Financial risks. The Government now has special powers within the Banking Act to draw down funds in the resolution of failing banks, but prior to these coming into force, the Department relied on access to the Contingencies Fund. With a limit of less than £9bn to be shared among Departments, this was inadequate for all major interventions. As with the old regime, appropriate controls are in place covering new powers.
- Delivery risks. For example, the announcement of the Asset Protection Scheme has placed on the Treasury a requirement to develop and operationalise a major scheme to provide protection against future losses' on eligible banks' riskiest assets.
- Commercial risks. The value and volume of transactions has increased considerably and with it the risks that Treasury will not achieve its vfm objectives in all commercial transactions.
- Capacity risks. Treasury has had to develop new mechanisms for mobilising staff to the right areas.

8. 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 and supported by three Board Subcommittees. 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 their own risk management and control frameworks, as detailed below.

9. HM Treasury is the lead department for one of the 30 cross-Government Public Service Agreements (PSAs) set under the 2007 Comprehensive Spending Review and is a delivery partner for six others. To support the cross-Government PSAs, each department has Departmental Strategic Objectives (DSOs). The Treasury Group has 2 DSOs, underpinned by 13 DSO Outcomes, each led by a Senior Responsible Owner at Director-level who has delegated responsibility for ensuring risks to the DSO are managed effectively. The Treasury Group has also adopted a parallel system for managing delivery against 7 Departmental Corporate Objective (DCO) Outcomes. The Treasury Board receives a quarterly report on progress and risks to DSOs /DCO and reviews each DSO/DCO outcome as appropriate.[4]

Risk Management in HM Treasury Group

10. The Treasury Board has a programme of strategic horizon scanning activities designed to identify possible longer-term and external events that may have an impact on the Group objectives and performance.

[3] Further information on the initiatives taken can be found later in the Accounts

[4] Further details on Treasury's Group's DSOs may found at http://www.hm-treasury.gov.uk/d/hmt_strategic_objectives_pu704.pdf

11. The Treasury Board is supported in its responsibility of managing risk within the Treasury Group by three group-wide sub-committees and two audit committees.

12. The Group Operations Committee and the Group Finance Committee manage operational and financial risks on behalf of the Board, informed by monthly reporting on HR, finance, Value for Money and other corporate metrics. To reflect the changing nature of Treasury's business in response to events in 2008-09, the Delivery Committee was created to provide a strategic oversight on the implementation of Treasury's new major delivery responsibilities (particularly those relating to interventions in financial markets).

13. 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.

14. The Treasury Board delegates responsibility for day-to-day operational and policy risks which affect the individual organisations in the Group to the relevant committee within each unit: in HM Treasury, the Executive Management Group; in OGC, the OGC Board; and in the DMO, the DMO Board; all of which can take urgent decision on behalf of the Treasury Board between Treasury Board meetings on issues relating specifically to that part of the Group. Where such decisions are cross cutting for the group as a whole a Group Executive Committee would be called.

15. Risks to the Treasury Group's internal financial controls and performance delivery are reviewed as part of the devolved business planning process through holding Senior Responsible managers to account for delivery, budget management, accounting for use of delegated resources and stewardship of assets. Particular attention is paid to risks with a high potential financial impact. Systems and processes are designed to encompass effective and proportional internal control measures and reviewed subject to risk assessment, by Treasury Internal Audit.

16. Responsibility for data and information held by the Treasury Group is delegated to designated Information Asset Owners. The Senior Information Asset Owner (SIAO) has overall responsibility for the Information Asset Register and functional responsibility for managing Information Asset Owners. A Senior Information Risk Owner (SIRO) has been appointed for each unit (HM Treasury, OGC and DMO) responsible for the information risk policy and associated risk assessment relating to information, who acts as an advocate for information risk on the Board and internal discussions.

17. A programme of education and training relating to the risks around information and data handling has been rolled out across the department in 2008-09 and will be continually refreshed to raise awareness, knowledge and skills.

Risk management in HM Treasury (the core department)

18. HM Treasury's risk management framework and business planning processes require staff at all levels to identify and manage risks associated with the Treasury's work programme. Senior managers identify

and manage risks as part of the work programme in each directorate and as part of their corporate responsibilities.

19. Risks are reviewed across the year by the Executive Management Group and the Permanent Secretary. 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.

20. Groups of officials are also convened as required to review new or emerging risks in priority areas. Significant risks are escalated to the relevant sub-committee or Treasury Board risk register, increasing visibility, strategic assessment and accountability. Directorate business plans also provide assessment of risks.

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

Risk Management in the Office of Government Commerce

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

Risk Management in the Debt Management Office

23. The DMO has various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. A key component is a Risk Committee, which meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The DMO has processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. A high level Strategic Risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by the Risk Management Unit, and is presented to the Managing Board for review on a regular basis. The Risk Management Unit also maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Additionally, a regular Operational Risk report is published to promote awareness of operational risk issues that the DMO faces, and to facilitate the escalation of issues where appropriate. The report ordinarily contains commentary on key risks, progress on treatment actions and exception reporting, and is produced by the Risk Management Unit for Senior Risk Owners and the Managing Board.

Review of effectiveness

24. As Principal 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 Treasury Board (which meets ten times a year to consider the plans and strategic direction of the Group);
- the senior management teams of OGC and DMO (who have their own control and risk framework structures and provide me with assurances on their internal control);
- the Group Resource Audit Committee (which reviews the corporate risk register and ensures the internal audit programme of reviews is informed by the top departmental risks);
- the Exchequer Funds Audit Committee (which gives the Accounting Officers responsible for the Exchequer Funds assurance that high quality processes are in place to manage and control risk for financial and non-financial activities);
- the Treasury Group Finance and Operations committees (which manage more detailed risks on behalf of the Board);
- the Delivery Committee (which takes a strategic overview of Treasury's major delivery responsibilities);
- at least quarterly progress reporting to the Treasury Board from managers responsible for the Treasury's PSA targets and DSOs and DSO outcomes, (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 financial management and stewardship, efficiency, workforce 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.

25. Treasury will incur an Excess Vote due to an inclusion of a provision for the Asset Protection Scheme. Under normal circumstances, this would be considered a control framework failure, however this was unavoidable as the events leading to the excess occurred too late in the financial year for the department to make any adjustment to its Supply Estimate. Further information on the excess vote is included in the Comptroller and Auditor General's Report.

Significant Internal Control Issues 2008-09

26. No significant internal control issues in the Treasury Group were identified in 2008-09.

Other actions initiated throughout the year

Activities to Strengthen Treasury's Overall Control Framework

27. The Treasury has significantly strengthened the management information used by the Board and its review of key risks by reviewing its internal performance and risk management regimes in parallel with introducing its two DSOs and its DCO. The Board systematically reviews progress against its DSO and DCO Outcomes – together with their associated risks, informed by strengthened quarterly performance reports that are subject to challenge and scrutiny and provide a basis for discussion on prioritisation, planning and risk.

28. The Treasury has appointed three new Non-Executives to its Board. The Non-Executives bring the skills and experiences best able to support the Department in exercising its new responsibilities.

29. The Treasury Board has focused much of its time on key issues relating to the economy and public sector finances, including supporting development of the policy response, reviewing implementation and undertaking horizon scanning:

- Creation of a new Board Subcommittee, the Treasury Group Delivery Sub Committee has been established to provide oversight and advice over Treasury's most significant new delivery responsibilities.
- Establishment of steering boards for significant delivery areas, including the Asset Protection Scheme and The Infrastructure Funding Unit.
- Rapid deployment of staff into areas of greatest need and revision of working arrangements to facilitate changed work patterns and resource focus needed to address rapidly changing landscape and management of critical issues.
- Enhancement of existing skill and knowledge set, supplementing it with expertise drawn from other institutions and by secondment and procurement arrangements
- Significant recruitment campaigns to attract new staff to backfill those redeployed, bolster critical areas and inject new skills, expertise and knowledge.
- Creation of additional Managing Director capacity to deal with international and financial stability measures.

30. HM Treasury has established a new arm's-length company, 'UK Financial Investments Limited' (UKFI), to provide expertise on its stewardship function, managing the Government's banking investments on a commercial basis. Its overarching objectives are to protect and create value for the taxpayer as shareholder, with due regard to financial stability and acting in a way that promotes competition. UKFI manages Government's investments in Royal Bank of Scotland and Lloyds Banking Group and will, in due course, manage its investments in Northern Rock and Bradford & Bingley. UKFI has recruited specific experience and skills to support this.

31. The shareholder relationship between UKFI and the Treasury, including the overarching set of controls, is set out in a Framework Document between UKFI and HM Treasury. Framework Documents

have also been agreed between Northern Rock and Bradford & Bingley, setting out the relationship between each of them and HM Treasury as shareholder.

Other Actions

32. During 2008 -09, an internal audit review of HM Treasury's business continuity management identified that Treasury had relatively effective procedures to deal with the continuity of business critical activities but needed to test newly installed technology at its recovery site, incorporate impact of National Risk Register scenarios and improve its ability to withstand loss of corporate services over a longer period. Progress has been made since the audit addressing cross-government issues, as well as improving the management and coordination activity of directorates. The increased operational responsibilities of Treasury to deliver support on financial stability means that more action is now being taken to improve resilience in this area. Pandemic flu plans are maturing and contingencies are in place to ensure continuity of activities through the autumn and winter of 2009-10.

33. Following weaknesses related to compliance with recruitment policies raised in an internal audit review in 2007-08, Treasury has continued to make progress in ensuring policies and procedures are adhered to consistently.

34. Over the year 2008-09, the Department has continued to implement requirements of the Cabinet Office-led cross-Government Data Handling review, in particular with the implementation of the Government-wide eLearning package - Protecting Government Information - across the Department and other education measures. The majority of the mandates of the Security Policy Framework are in place and are either partly or fully met. The department is now focussing on ensuring that all aspects of this revised policy are fully implemented.

Internal Audit

35. During the period of this SIC, Internal Audit's strategy was to take a risk-based approach consistent with the organisation's goals and objectives. Internal audit worked closely with the Risk Improvement Manager and interviewed senior management to understand the main risks, to challenge the process for identifying risks and assessing the adequacy of mitigation action. This helped inform internal audit's plans and conclusions. Internal Audit delivered a comprehensive range of reports to the relevant audit committees covering the effectiveness of risk management, control and governance in HM Treasury, OGC and DMO.

36. The Chair of the Group Resource Audit Committee had regular meetings with me or other relevant Accounting Officers. Internal Audit attended all meetings of the Group Resource Audit Committees 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.

37. Over the financial year 2008-09, internal audits have been conducted in HM Treasury, OGC and DMO to provide a reasonable level of assurance to me 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 provided me with his opinion that reasonable assurance on the framework of governance, risk management and control can be obtained from the internal audit work conducted during the year.

Sir Nicholas Macpherson
Permanent Secretary
15 July 2009

Ministers' and senior managers' remuneration report

Remuneration Policy

1. The remuneration of the Permanent Secretary, Second Permanent Secretary and Chief Executive of the OGC is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining members of HM Treasury Board and the Chief Executive of DMO, remuneration is determined by HM Treasury's Pay Committee in accordance with the rules set out in the Civil Service Management Code (Chapter 7.1, Annex A).

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

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

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

Service Contracts

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

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

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

Salaries and Pension Entitlements of HM Treasury Ministers and Senior Management

7. The following sections provide details of the salaries and pension entitlements of the most senior civil servants as a result of their employment by HM Treasury, and those of ministers who have a direct influence on managing or controlling the activities of HM Treasury. These disclosures have been subject to external audit.

Salaries and Pensions of Ministers[1]

Name	2008-09 Salary and full year equivalent (FYE[2]) (£)	2008-09 Benefits in kind (nearest £100)	2007-08 Salary and full year equivalent (FYE) (£)	2007-08 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/09 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/09 or end date (nearest £000)	CETV at 31/03/08 or start date (nearest £000)	Real increase in CETV (nearest £000)
Alistair Darling Chancellor of the Exchequer (from 28/06/07)	79,180	7,900	58,105 (FYE 76,904)	5,900	15 - 20	0 - 2.5	377	334	19
Gordon Brown[3] Chancellor of the Exchequer (to 27/06/07)	-	-	18,799 (FYE 76,904)	1,800	-	-	-	-	-
Yvette Cooper Chief Secretary to HM Treasury (from 24/01/08)	78,995	-	14,471 (FYE 76,904)	-	5 - 10	0 - 2.5	73	59	5
Andy Burnham Chief Secretary to HM Treasury (from 30/06/07 to 23/01/08)	-	-	43,634 (FYE 76,904)	-	-	-	-	-	-
Stephen Timms Chief Secretary to HM Treasury (from 05/05/06 to 28/06/07)	-	-	18,799 (FYE 76,904)	-	10 - 15	0 – 2.5	148	143	3
Financial Secretary to HM Treasury (from 05/10/2008)	16,936 (FYE 40,646)		-	-					
Jane Kennedy Financial Secretary to HM Treasury (from 30/06/07 to 05/10/2008)	24,136 (FYE 40,646)		30,031 (FYE 39,893)	-	5 - 10	0 – 2.5	115	101	6
John Healey Financial Secretary to HM Treasury (to 29/06/07)	-	-	9,498 (FYE 38,854)	-	-	-	-	-	-

[1] Included within Ministers' salaries (for those employed by HM Treasury in August 2008) is an amount relating to arrears paid in September 2008. These were paid following an Order in Council under the Ministerial and other Salaries Act 1975 in July 2008, revising ministerial salaries effective 1 April 2007.

[2] FYE – For Year Equivalent

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

Salaries and Pensions of Ministers continued

Name	2008-09 Salary and full year equivalent (FYE) (£)	2008-09 Benefits in kind (nearest £100)	2007-08 Salary and full year equivalent (FYE) (£)	2007-08 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/09 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/09 or end date (nearest £000)	CETV at 31/03/08 or start date (nearest £000)	Real increase in CETV (nearest £000)
Angela Eagle Exchequer Secretary to HM Treasury (from 30/06/07)	31,174		22,794 (FYE 30,280)	-	0 - 5	0 - 2.5	62	46	10
Ian Pearson[4] Economic Secretary to HM Treasury (from 05/10/08)	15,094 (FYE 30,851)		-	-	5 - 10	0 - 2.5	84	80	2
Kitty Ussher Economic Secretary to HM Treasury (from 30/06/07 to 05/10/08)	18,319 (FYE 30,851)		22,794 (FYE 30,280)	-	0 - 5	0 - 2.5	8	5	2
Ed Balls Economic Secretary to HM Treasury (from 05/05/06 to 29/06/07)	-	-	7,209 (FYE 29,491)	-	-	-	-	-	-
Paul Myners[5] Financial Services Secretary to HM Treasury (from 05/10/08)	-	-	-	-	-	-	-	-	-
Dawn Primarolo Paymaster General (to 29/06/07)	-	-	9,752 (FYE 39,893)	-	-	-	-	-	-

[4] Ian Pearson's time is shared equally between Treasury and The Department for Business, Enterprise and Regulatory Reform (BERR). However, his salary and pension arrangements are the responsibility of HM Treasury and are shown above, in full.

[5] For performing his duties as Financial Services Secretary to HM Treasury Paul Myners does not draw a salary.

Name	2008-09		2007-08		Total accrued pension at age 65 at 31/03/09 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/09 or end date (nearest £000)	CETV at 31/03/08 or start date (nearest £000)	Real increase in CETV (nearest £000)
Liam Byrne[1] Joint Secretary of State to HM Treasury and Secretary of State to the Home Office (from 24/01/08 to 05/10/08)	-	-	-	-	-	-	-	-	
Phil Woolas[2] Joint Secretary of State to HM Treasury and Secretary of State to the Home Office (from 05/10/08)	-	-	-	-	-	-	-	-	-

CETV stands for Cash Equivalent Transfer Value, explained in paragraph 20 below. The opening CETV figure may differ from the closing CETV figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. The salary and pension details disclosed relate to a full financial year, unless the minister concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column.

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

[2] Phil Woolas' salary and pension arrangements remain the responsibility of Home Office and the relevant disclosures can be found in their resource accounts, accordingly.

Salaries and Pensions of Senior Management

Name	2008-09 Salary range and full year equivalent (FYE) (£000)	2008-09 Benefits in kind (nearest £100)	2007-08 Salary range and full year equivalent (FYE) (£000)	2007-08 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/09 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/09 or end date (nearest £000)	CETV at 31/03/08 or start date (nearest £000)	Real increase in CETV (nearest £000)
Sir Nicholas Macpherson Permanent Secretary	180 - 185	11,700	180 - 185	16,400	50 - 55 plus lump sum 155 - 160	0 - 2.5 plus lump sum 2.5 - 5	916	828	13
Tom Scholar Second Permanent Secretary (from 23/03/09)	0 - 5 (FYE 145 - 150)	-		-	25 - 30 plus lump sum 80 - 85	0 – 2.5 plus lump sum 2.5 - 5	360	315	15
Managing Director (from 11/02/08)	135 - 140 (FYE 135 - 140)		15 - 20 (FYE 130 - 135) -	-					
John Kingman Second Permanent Secretary (from 22/10/07 to 03/11/08)	100 - 105 (FYE 155 - 160)	-		-	20 - 25 plus lump sum 70 - 75	0 - 2.5 plus lump sum 0 - 2.5	290	270	9
Managing Director (to 21/10/07)			60 - 65 (FYE 135 - 140) 80 - 85 (FYE 110 - 115)	-					
Nigel Smith[1] Chief Executive OGC (from 03/09/07)	180 - 185	-	100 - 105 (FYE 175 - 180)	-	NA	NA	NA	NA	NA
Robert Stheeman Chief Executive DMO	140 - 145		135 - 140	-	10 - 15	0 - 2.5	179	140	24
Andrew Hudson Managing Director (from 30/03/09)	0 – 5 (FYE 130 – 135)	-	-	-	50 - 55	0 – 2.5	835	835	0

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

Salaries and Pensions of Senior Management continued

Name	2008-09 Salary range and full year equivalent (FYE) (£000)	2008-09 Benefits in kind (nearest £100)	2007-08 Salary range and full year equivalent (FYE) (£000)	2007-08 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/09 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/09 or end date (nearest £000)	CETV at 31/03/08 or start date (nearest £000)	Real increase in CETV (nearest £000)
Mark Neale Managing Director	115 - 120	-	125 - 130	-	40 - 45 plus lump sum 125 -130	0 - 2.5 plus lump sum 0 - 2.5	781	713	3
Stephen Pickford Managing Director (from 09/07/07)	115 - 120	-	75 - 80 (FYE 105 - 110)	-	50 – 55 plus lump sum 150 – 155	0 – 2.5 plus lump sum 0 - 5	1,175	1,059	30
Dave Ramsden Managing Director (from 13/06/07)	125 - 130	-	75 - 80 (FYE 95 - 100)	-	25 – 30 plus lump sum 85 - 90	0 – 2.5 plus lump sum 5 – 10	449	380	34
Louise Tulett Director of Finance and Procurement (from 04/06/07 to 24/06/07) Director of Finance, Procurement and Operations (from 25/06/07)	100 - 105	-	0 - 5 (FYE 85 - 90) 65 - 70 (FYE 85 - 90)	- -	5 – 10 plus lump sum 25 - 30	0 – 2.5 plus lump sum 2.5 – 5	166	134	19
Ray Shostak Head of Prime Minister's Delivery Unit and Performance Management (Board Member from 03/11/08)	115 – 120 (FYE 165 - 170)	-	-	-	10 - 15	0 – 2.5	206	187	10
Sam Beckett Director of Policy and Planning (from 25/06/07 to 14/01/08) (part-time basis) Director of Operations (to 24/06/07) (part-time basis)	5 - 10	-	45 - 50 (FYE 65 - 70) 15 - 20 (FYE 65 - 70)	- -	-	-	-	-	-

Salaries and Pensions of Senior Management continued

Name	2008-09 Salary range and full year equivalent (FYE) (£000)	2008-09 Benefits in kind (nearest £100)	2007-08 Salary range and full year equivalent (FYE) (£000)	2007-08 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/09 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/09 or end date (nearest £000)	CETV at 31/03/08 or start date (nearest £000)	Real increase in CETV (nearest £000)
Jon Cunliffe Second Permanent Secretary (to 26/06/07)	-	-	30 - 35 (FYE 135 - 140)	- -	-	-	-	-	-
Michael Ellam Director of Policy and Planning (to 26/06/07)	-	-	15 - 20 (FYE 80 - 85)	-	-	-	-	-	-
Peter Fanning Acting Chief Executive OGC (from 01/04/07 to 02/09/07)	-	-	55 - 60 (FYE 135 - 140)	8,100	-	-	-	-	-
Dame Mary Keegan[2] Part-time Head of the Government Finance Profession (from 01/09/07 to 31/03/08)	-	-	70 - 75 (FYE 95 - 100)	-	-	-	-	-	-
Finance Director (to 03/06/07) and full-time Managing Director (to 31/08/07)			85 - 90 (FYE 160 - 165)	-					

CETV stands for Cash Equivalent Transfer Value, explained in paragraph 20 below. The opening CETV figure may differ from the closing CETV figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. Further details of bonuses actually paid during these financial years can be found on the table overleaf. However, as performance pay is awarded in arrears, the bonuses payable, for performances during the 2008-09 financial year, are not yet known and will, therefore, be disclosed in next year's accounts. Furthermore, the salary and pension details disclosed relate to a full financial year, as stated in the relevant column headings, unless the director concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column

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

Salary

8. 'Salary' includes gross salary; performance pay or bonuses paid during the year, as detailed below; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are shown. The pay committees, covering those senior managers listed in the tables above and below, comprise either the Permanent Secretary and senior outside member (usually a non-executive director) or managing directors and a senior outside member (either a non-executive director or a suitable senior person from another department), dependent on the grade of the manager whose pay is being reviewed.

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

Name	2008-09 Bonus range (£000)	2007-08 Bonus range (£000)
Sir Nicholas Macpherson	10 - 15	15 - 20
Tom Scholar	N/A	N/A
John Kingman	15 - 20	15 - 20
Nigel Smith	N/A	N/A
Robert Stheeman	10 - 15	10 - 15
Andrew Hudson	N/A	N/A
Mark Neale	0 - 5	10 - 15
Stephen Pickford	10 - 15	N/A
Dave Ramsden	15 - 20	N/A
Louise Tulett	10 - 15	N/A
Ray Shostak	N/A	N/A
Sam Beckett	5 - 10	5 - 10
Dame Mary Keegan	-	20 - 25

9. This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£63,291 from 1 April 2008) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in note 6.5 to the accounts.

Benefits in Kind

10. The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. The benefits in kind disclosed above for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street. These are capped at 10 per cent of his salary. Those for the Permanent Secretary and the former acting 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. HM Treasury has an agreement with HM Revenue & Customs to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

Ministerial Pensions

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

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

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

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

Civil Service Pensions

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

16. Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

20. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. For the senior management's pension entitlements from the Civil Service pension scheme, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. Similarly, for ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

21. This reflects the increase in CETV effectively funded by the employer or Exchequer, in the case of Ministers. It does not include the increase in accrued pension due to inflation, contributions paid by the employee or Minister (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	2008-09		2007-08	
	Fees range (£000)	Benefits in kind (rounded to nearest £100)	Fees range (£000)	Benefits in kind (rounded to nearest £100)
Sir William Sargent	10 – 15	-	5 - 10	-
Michael O'Higgins (from 01/10/08)	5 – 10 (FYE 10 – 15)	-	-	-
Sir Callum McCarthy (from 01/10/08)	0 – 5 (FYE 5 – 10)	-	-	-
Dame Deirdre Hutton (from 01/10/08)	0 – 5 (FYE 5 – 10)	-	-	-
Stella Manzie *(to 27/06/08)*	0 – 5 (FYE 5 – 10)	-	5 - 10	-
Sir Peter Gershon (to 31/03/08)	-	-	5 - 10	-
Sir David Varney *(to 31/07/07)*	-	-	Nil	-

22. 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 HM Treasury Board, Stella Manzie was also a member of the Group Resource Audit Committee for which Coventry City Council received an additional £0 - 5k.

23. In addition to being a non-executive member of HM Treasury Board, Sir William Sargent was also chairman of the Group Resource Audit Committee until 30 September 2008, for which he received remuneration of £0 - £5k.

24. Michael O'Higgins is Chairman of the Audit Commission in addition to being a Treasury non-executive director. He was appointed chairman of the Group Audit Committee on 1 October 2009, for which he received remuneration of £0 - 5k.

25. Prior to becoming a non-executive member of HM Treasury Board, Sir Callum McCarthy was Chairman of the FSA and a member of the Court of the Bank of England.

Fees of Independent Members of HM Treasury Audit Committees

26. Colin Thwaite was an independent member of the Group Resource Audit Committee, for which he received remuneration of £5 - 10k.

27. Colin Price, Brian Larkham and Mark Clarke were independent members of the Exchequer Funds Audit Committee, for which they received remuneration of £0 - 5k, £0 - 5k and £5 - 10k respectively.

Sir Nicholas Macpherson
Permanent Secretary
15 July 2009

The Certificate 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 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic 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 there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Introduction, Executive Summary, Chapters 4 and 5 (excluding the Tables), and Annexes B and C, included in the Annual 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. This other information comprises Chapters 1 to 3 and Annexes A, D and E of the Annual Report, and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinions

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 HM Treasury's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Introduction, Executive Summary, Chapters 4 and 5 (excluding the Tables), and Annexes B and C, included within the Annual Report, is consistent with the financial statements.

Qualified Audit Opinion on Regularity arising from resource expenditure in excess of amounts authorised

Parliament authorised a 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*" of £20,992,316,000. Against this limit, HM Treasury incurred net resource expenditure of £44,808,175,000, as shown in the Summary of Parliamentary Supply for 2008-09, and have thus exceeded the authorised limit. This excess arose due to the need to provide for some £25 billion for the net losses to be incurred on the Asset Protection Scheme which was not included in HM Treasury's Parliamentary Estimates.

The net resource expenditure was £23,815,859,000 in excess of the amount authorised for Request for Resources 1. In my opinion, except for this excess, in all other 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.

More details are set out in my following Report.

Amyas C E Morse
Comptroller and Auditor General
17 July 2009

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

Report by the Comptroller and Auditor General to The House Of Commons

Introduction

1 In 2008-09, HM Treasury incurred some £23.8 billion more resources than Parliament had authorised in the Supply Estimate. This represents an "excess" for which further Parliamentary authority is required and I have therefore qualified my opinion on HM Treasury's Resource Accounts.

2 Under section 6(1) of the Government Resources and Accounts Act 2000 Act, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In doing so, I have regard, in particular, to the Supply limits Parliament has set on expenditure.

Expenditure Limits

3 For 2008-09, HM Treasury had three Requests for Resources for which Parliament authorised amounts for current expenditure which are net of forecast income (Appropriations in Aid or "A in A"):

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

4 Parliament sets limits on the amount of operating A in A that can be applied to expenditure. The amounts authorised for each Request for Resources and related Appropriations in Aid together represent a limit on the gross current expenditure that may be incurred. A in A in excess of the approved limit have to be surrendered to the Consolidated Fund.

5 Parliament also sets a limit on the overall net cash HM Treasury may use in total, known as the *net cash requirement*.

HM Treasury Resource Accounts 2008-09

6 The Accounting Officer notes in his Statement on Internal Control, that this financial year has been an exceptional one for HM Treasury. This has resulted in a series of interventions to ensure the stability of the financial system and restore the flow of credit within the economy.

7 In order to finance these interventions, HM Treasury requested and received additional resources and cash at key stages during 2008-09. These bids were made through Supplementary Estimates and adjusted Request for Resources 1, increasing the net resource limit from £315 million to £21,068 million and the net cash requirement from £14,221 million to £89,236 million (Table 1).

Table 1.A: Amounts Authorised by Parliament for HM Treasury 2008-09

2008-09 Estimates	Net Resources (£million)	Net Cash (£ million)
Main Estimates April 2008 *(HC 479)*	315	14,221
Summer Supplementary Estimates June 2008 *(HC 621)*	-	5,300
Out-of-turn Supplementary Estimate October 2008 *(HC 1061)*	-	42,200
Winter Supplementary Estimates November 2008 *(HC 1163)*	8	23,413
Revised Spring Supplementary Estimates February 2009 *(HC 265)*	20,745	4,102
Total	**21,068**	**89,236**

Source: HM Treasury Estimates 2008-09

8 The main components of the net cash requirement were to provide HM Treasury with:

- £46 billion to re-finance the loans initially provided by the Bank of England to Northern Rock (Note 29), the Financial Services Compensation Scheme (Note 38.3), and Bradford and Bingley (Note 30);
- £37 billion to purchase shares in Royal Bank of Scotland (Note 31 to the Accounts) and HBOS/Lloyds (Note 32); and
- £6 billion to pay over amounts to cover deposits in Bradford and Bingley (Note 30), the Icelandic banks (Notes 33, 34 and 36), and London Scottish Bank (Note 35).

9 Included within the £20,745 million increase in resource expenditure in the revised Spring Supplementary Estimates was £20,000 million to cover the reduction in the value (the "impairment") of certain financial investments and loans.

Breach of Expenditure Limits on Request for Resources 1

10 The Accounts (The Statement of Parliamentary Supply) show net expenditure outturn of £44,808,175,000 which is £23,815,859,000 more than the authorised limit of £20,992,316,000. The operating income authorised to be appropriated in aid of expenditure was £135,925,000 and was received in full and applied. HM Treasury received a further £7,289,000, shown as Administration Income Payable to the Consolidated Fund ("excess Appropriations in Aid") in Note 9 to the Accounts. HM Treasury propose to ask Parliament to:

- increase the limit on Appropriations in Aid by £7,289,000 so that it can be applied towards meeting the excess on the Request for Resources; and
- grant an Excess Vote for the balance of £23,808,570,000.

Reasons for the excess expenditure on Request for Resources 1

11 On 19 January 2009, as part of a range of measures to reinforce financial stability and increase market confidence, the Government announced its intention to offer an Asset

Protection Scheme. Under this Scheme, HM Treasury will provide banks with protection against future credit losses on certain assets in exchange for a fee. A "first loss" remains with the bank but the Government's protection will cover 90 per cent of credit losses above this amount, with the participating bank retaining the residual exposure.

12 On 26 February 2009, HM Treasury announced further details of the Scheme and an agreement in principle that the Royal Bank of Scotland Group would participate in the Scheme by seeking to protect some £325 billion of eligible assets for a fee made up of £6.5 billion of non-voting ordinary shares (Note 31.2 to the Accounts). The Bank will also agree, over a period to be finalised, not to claim certain UK tax losses or allowances. On 7 March, Lloyds Banking Group announced that it would also participate in the Scheme protecting some £260 billion assets for a fee of £15.6 billion of non-voting ordinary shares (Note 32.2).

13 The banks signed pre-accession agreements with HM Treasury on the dates the announcements were made. HM Treasury's intention is to move to full legally binding agreements with the banks over summer 2009. By 30 June, this process had not yet concluded. HM Treasury had undertaken but not completed further due diligence work. It was also finalising negotiations with the banks. Once full agreements are reached with the banks, the deals will then be subject to EU State Aid and shareholder approval. HM Treasury currently expects the Scheme to be underway no later than autumn 2009.

14 In accounting for this Scheme, HM Treasury have concluded that, at the balance sheet date, it had a "present obligation" under Accounting Standards to make payments arising from this Scheme. HM Treasury had no legal obligation at the balance sheet date, but it had taken actions which created an expectation that the Scheme would be implemented. These actions included public statements, ongoing negotiations with the participating banks, and advertising for the post of Chief Executive of the Asset Protection Agency, the body set up to administer the Scheme.

15 At this stage, HM Treasury has estimated the scale of the expected losses on the Scheme at some £25 billion (Note 19.3 to the Accounts). It knew from the outset that the Scheme would result in a significant loss but it could not estimate the amount until the banks had confirmed their participation in it in March. It was therefore too late at this stage for HM Treasury to seek extra resources from Parliament to meet these losses which it has recorded as a provision against expenditure. It therefore breached its expenditure limit on Request for Resources 1.

Other Matters

16 In February 2009, HM Treasury also made arrangements to obtain cash funds if they were required urgently. Part 7 of the Banking Act 2009 allows the Treasury to draw funds directly from the Consolidated Fund to provide financial assistance to banks where the need for such funds is so urgent that it cannot use the normal Supply process. In March 2009, HM Treasury drew on this for the first time to obtain some £1.6 billion to cover the deposits transferred from Dunfermline Building Society, avoiding a breach of its net cash requirement limit. The assets purchased with these funds are included in HM Treasury's balance sheet (Notes 13 and 37 to the Accounts).

17 Included within the Spring Supplementary Estimate, HM Treasury obtained an additional £20,000 million of resources to cover the reduction in the market value of certain financial investments and loans. The value of its shareholdings in the Royal Bank of Scotland Group and the Lloyds Banking Group fell by some £17.3 billion between the dates of purchase and the balance sheet date. HM Treasury has written off this amount (Note 13 to the Accounts) to its Operating Cost Statement, following normal accounting practice.

18 UK Financial Investments Limited manages the shareholdings in these banks on behalf of HM Treasury. Its objectives are to sell HM Treasury's investments in a way and at a time that will protect and create value for the taxpayer as shareholder, with due regard to financial stability and acting in a way that promotes competition. HM Treasury have told me that it will only be when the shares are sold that the true value of any real gains or losses to the taxpayer arising from these shareholdings will become known.

Conclusion

19 HM Treasury has incurred an Excess Vote on Request for Resource 1 of £23,815,859,000 for which it requires retrospective Parliamentary approval. It will therefore seek Parliament's approval to increase the limit on Appropriations in Aid by £7,289,000 as additional use of resources and to authorise an Excess Vote for the balance of £23,808,570,000.

Amyas C E Morse
Comptroller and Auditor General
17 July 2009

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

Statement of Parliamentary Supply

for the year ended 31 March 2009

	Note	Estimate Gross expenditure £000	Estimate A-in-A £000	Estimate Net total £000	Outturn Gross expenditure £000	Outturn A-in-A £000	Outturn Net total £000	2008-09 Net Total Outturn compared with Estimate saving/ (excess) £000	2007-08 Outturn Net total £000
Request for Resources 1	3	21,128,241	(135,925)	20,992,316	44,944,100	(135,925)	44,808,175	(23,815,859)	230,570
Request for Resources 2	3	49,375	-	49,375	42,094	-	42,094	7,281	43,689
Request for Resources 3	3	38,183	(11,690)	26,493	35,201	(11,690)	23,511	2,982	32,629
Total Resources	3	**21,215,799**	**(147,615)**	**21,068,184**	**45,021,395**	**(147,615)**	**44,873,780**	**(23,805,596)**	**306,888**
Non-Operating Cost A-in-A				-				-	-
Net Cash Requirement	5			**89,236,052**			**88,309,709**	**926,343**	**207,309**

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 2008-09 Income £000	Forecast 2008-09 *Receipts £000*	Outturn 2008-09 Income £000	Outturn 2008-09 *Receipts £000*
Total (note 9.2)	7,295,055	*7,114,773*	7,232,345	*5,844,668*

The Department has incurred an Excess of £23.8 billion because of a breach of the net resource requirement for RfR1. The Department will seek Parliamentary approval by way of an Excess Vote in the Statement of Excesses in Spring 2010.

Explanations of variances between Estimate and outturn are given in note 3.2.

Key to Requests for Resources

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

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

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

Explanations of variances between Estimate and outturn are given in note 3 and in the management commentary.

The notes on pages 182 to 263 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2009

	Note	2008-09 Core Treasury £000	2008-09 Group Total £000	2007-08 (Restated) Core Treasury £000	2007-08 (Restated) Group Total £000
Administration costs					
Staff costs	6.1	65,539	90,894	68,575	94,003
Other administration costs	7	101,802	121,796	80,225	102,592
Gross administration costs before exceptional items		**167,341**	**212,690**	**148,800**	**196,595**
Operating income	9	(45,293)	(59,063)	(18,767)	(36,750)
Net administration costs before exceptional items		**122,048**	**153,627**	**130,033**	**159,845**
Exceptional item – loss on sale of Trevelyan House	7	-	-	3,385	3,385
Exceptional item – loss on sale of Thistle Street	7	-	-	372	372
Net administration costs after exceptional items		**122,048**	**153,627**	**133,790**	**163,602**
Programme costs					
Request for Resources 1: Core Treasury and DMO					
Expenditure	8	824,289	828,951	101,449	104,241
Exceptional item – Creation of APS provision	8	25,000,000	25,000,000	-	-
Exceptional item – Impairment of financial assets	8	18,925,881	18,925,881	-	-
Exceptional item – Building	8	9,001	9,001	(14,957)	(14,957)
Less: income	8 & 9	(2,764,517)	(2,766,269)	(132,676)	(134,056)
		41,994,654	**41,997,564**	**(46,184)**	**(44,772)**
Request for Resources 2: Coinage					
Expenditure	8	42,094	42,094	43,688	43,688
Less: income	8 & 9	(4,588)	(4,588)	(4,877)	(4,877)
		37,506	**37,506**	**38,811**	**38,811**
Request for Resources 3: OGC					
Expenditure	8	-	2,778	-	1,231
Exceptional item: Restructuring exit costs		-	-	-	10,300
Less: income	8 & 9	-	(2,347)	-	(1,919)
		-	**431**	-	**9,612**
Expenditure outside Supply process					
Banking and gilts registration services	3.3&8	11,305	11,305	11,358	11,358
Net programme costs		**42,043,465**	**42,046,806**	**3,985**	**15,009**
Total net operating costs		**42,165,513**	**42,200,433**	**137,775**	**178,611**

Statement of Recognised Gains and Losses
for the year ended 31 March 2009

	Note	2008-09 Core Treasury £000	2008-09 Group Total £000	2007-08 (Restated) Core Treasury £000	2007-08 (Restated) Group Total £000
Movement on AFS Reserve	21	1,058,154	1,058,154	435,890	435,890
Movement on Hedging Reserve	21	(6,717)	(6,717)	-	-
Movement on Revaluation Reserve	21	-	-	(138)	(3,167)
Recognised losses for the financial year		**1,051,437**	**1,051,437**	**(435,752)**	**(432, 723)**

The notes on pages 182 to 263 form part of these accounts.

Balance Sheet

as at 31 March 2009

	Note	2009 Core Treasury £000	2009 Group £000	2008 Core Treasury £000	2008 Group £000
Non-current assets					
Tangible assets	11	101,463	102,083	113,378	113,958
Intangible assets	12	2,266	2,819	1,838	2,743
Financial assets:					
Available for sale	13a	23,050,172	23,050,522	2,306,365	2,306,715
Loans and receivables	13a	47,059,020	47,059,020	19,315,594	19,315,594
Derivative financial assets expiring after more than one year	13a	18,594	18,594	-	-
Total non-current assets		**70,231,515**	**70,233,038**	**21,737,175**	**21,739,010**
Debtors: falling due after more than one year	15	2,690,707	2,690,716	3	12
Current assets					
Derivative financial assets expiring within one	13a	1,027,213	1,027,213	-	-
Finished coinage and scrap metal stocks	14	5,883	5,883	8,045	8,045
Debtors: due within one year	15	2,030,686	2,034,692	105,001	110,074
Cash at bank and in hand	16	3,152	4,975	1,555	3,504
Total current assets		**3,066,934**	**3,072,763**	**114,601**	**121,623**
Current liabilities					
Creditors: amounts falling due within one year	17	(1,960,910)	(1,971,046)	(128,420)	(137,776)
Derivative financial liabilities expiring within one year	13b	(445,081)	(445,081)	-	-
Net current assets/(liabilities)		**660,943**	**656,636**	**(13,819)**	**(16,153)**
Total assets less current liabilities		**73,583,165**	**73,580,390**	**21,723,359**	**21,722,869**
Financial Liabilities:					
- Financial guarantees	13b	(3,224,736)	(3,224,736)	-	-
- Derivative financial liabilities expiring after more than one year	13b	(21,721)	(21,721)	-	-
Creditors: amounts falling due after more than one year	17	(162,150)	(162,150)	(158,044)	(158,211)
Provisions for liabilities and charges	19	(25,381,175)	(25,393,801)	(19,302,350)	(19,318,062)
Net assets		**44,793,383**	**44,777,982**	**2,262,965**	**2,246,596**
Taxpayers' equity					
General fund	20	42,733,025	42,717,536	1,254,044	1,237,587
Available for sale reserve	21	2,065,563	2,065,604	1,007,409	1,007,450
Hedging reserve	21	(6,717)	(6,717)	-	-
Revaluation reserve	21	1,512	1,559	1,512	1,559
		44793,383	**44,777,982**	**2,262,965**	**2,246,596**

The notes on pages 182 to 263 form part of these accounts.

Sir Nicholas Macpherson
Permanent Secretary
15 July 2009

Consolidated Cash Flow Statement

for the year ended 31 March 2009

	2008-09 £000	2007-08 £000
Net cash outflow from operating activities	(17,699,192)	(68,959)
Cash outflow from capital expenditure and financial investment	(66,319,218)	1,992
Payments of amounts due to the Consolidated Fund	(5,838,008)	(141,425)
Financing	89,857,889	203,338
Increase/(decrease) in cash in the period	**1,471**	**(5,054)**

Notes to the Consolidated Cash Flow Statement

Reconciliation of operating cost to operating cash flows	Note	£000	£000
Net operating cost	10	42,200,433	178,611
Transfer to Cabinet Office	2	-	399
Financial guarantee adjustment (FRS26)	20	(98,940)	-
Adjust for non-supply costs	3.3 & 8	(11,305)	(11,358)
Adjust for non-cash transactions	8.1	(44,668,068)	(98,678)
Changes in working capital other than cash	18	1,372,144	3,753
Inter departmental transfer	20	34	-
Movement from creditors to provisions		-	(360)
Movements in Financial instruments passing through OCS		124,534	-
Indexation of PFI creditor	7	(6,021)	(7,394)
Use of provisions	19	18,786,381	3,986
Net cash outflow from operating activities		**17,699,192**	**68,959**

Analysis of capital expenditure and financial investment	Note	£000	£000
Cash paid for tangible fixed assets	11	1,365	1,786
Cash paid for intangible fixed assets	12	1,843	1,283
Donated assets	11	(1)	-
Proceeds of disposals of fixed assets	9.3	(36)	(2,345)
Cash paid for financial assets	13	70,863,704	-
(Repayments) from other bodies	13	(4,547,657)	(2,716)
Net cash outflow/(inflow) from investing activities		**66,319,218**	**(1,992)**

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	2,853	71,291,613	-	71,294,466
Request for Resources 2	-	-	-	-
Request for Resources 3	-	-	-	-
Net movement in debtors/creditors	355	(427,909)	-	(427,554)
Total 2008-09	**3,208**	**70,863,704**	**-**	**70,866,912**
Total 2007-08	**3,072**	**-**	**-**	**3,072**

Analysis of financing	Note	2008-09 £000	2007-08 £000
From the Consolidated Fund (Supply): current year	20	88,916,520	205,257
Surrender of current year supply	20	(612,000)	(306)
Cash received from Consolidated Fund Standing Services re Dunfermline	20	1,555,162	-
Capital element of payments in respect of on balance sheet PFI contracts	17	(1,793)	(1,613)
Advance from the Contingencies Fund		8,409,742	-
Repayment to the Contingencies Fund		(8,409,742)	-
Net cash inflow from financing		**89,857,889**	**203,338**

The notes on pages 182 to 263 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Strategic Objective

for the year ended 31 March 2009

Objectives:	2008-09 Gross Expenditure £000	2008-09 Income £000	2008-09 Net £000	2007-08 (Restated) Gross Expenditure £000	2007-08 (Restated) Income £000	2007-08 (Restated) Net £000
1a	3,292	(178)	3,114	3,096	(93)	3,003
1b	7,581	(563)	7,018	9,016	(1,078)	7,938
1c	20,515	(332)	20,183	33,666	(14)	33,652
1d	45,846	(12,636)	33,210	54,792	(16,482)	38,310
1e	77,408	(6,270)	71,138	24,796	(6,350)	18,446
Total DSO 1	**154,642**	**(19,979)**	**134,663**	**125,366**	**(24,017)**	**101,349**
2a	65,218	(210,494)	(145,276)	99,902	(41,737)	58,165
2b	5,847	(470)	5,377	7,048	(866)	6,182
2c	3,508	(327)	3,181	4,145	(534)	3,611
2d	14,794	(1,386)	13,408	16,555	(3,401)	13,154
2e	834,817	(2,593,205)	(1,758,388)	81,170	(102,270)	(21,100)
2f	2,305	(146)	2,159	2,655	(102)	2,553
2g	2,406	(57)	2,349	2,684	(265)	2,419
2h	12,699	(514)	12,185	12,693	(510)	12,183
Total DSO 2	**941,594**	**(2,806,599)**	**(1,865,005)**	**226,852**	**(149,685)**	**77,167**
Other costs (DCO)	**1,582**	**(5,689)**	**(4,107)**	**4,895**	**(3,900)**	**995**
Exceptional items	**43,934,882**	**-**	**43,934,882**	**(900)**	**-**	**(900)**
Net operating cost	**45,032,700**	**(2,832,267)**	**42,200,433**	**356,213**	**(177,602)**	**178,611**
Reconciliation to Resource Budget outturn						
Per Table A1 in Annex A of the Annual Report						
Net operating cost, as above			42,200,433			178,611
Less non-budget income						
Pool Re			92,112			37,286
Other			-			-
Add non-voted expenditure:						
Civil List, net (other)			8,259			8,259
Royal Household Pensions: (other)			2,360			1,896
Resource Budget outturn			**42,303,164**			**226,052**

The Department's Strategic Objectives are as follows:

DSO 1	Maintain sound public finances
1a	Meeting the fiscal rules;
1b	Ensuring the tax yield is sustainable and risks managed;
1c	Managing public spending;
1d	Professionalising and modernising the finance and procurement functions in government;
1e	Managing government cash, debt & reserves efficiently and effectively.
DSO 2	Ensure high and sustainable levels of economic growth, well-being and prosperity for all
2a	Supporting low inflation;
2b	Promoting efficiency and fairness of the tax system;
2c	Improving incentives and means to work; supporting children and pensioners; and helping people plan and save for the future;
2d	Improving the quality and value for money of the public services;
2e	Supporting fair, stable and efficient financial markets;
2f	Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions;
2g	Protecting the environment in an economically efficient and sustainable way;
2h	Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

The Department's Corporate Objectives are;

DCO: deliver effectively and efficiently, and remain a strong, respected and professional economics and finance ministry.	
1	Managing our work, performance and risk;
2	Managing our people;
3	Managing our finances;
4	Managing our knowledge and information systems;
5	Managing our relationship with Ministers and Parliament;
6	Managing our stakeholders and communication;
7	Managing our infrastructure and estate securely and sustainably.

For the purpose of Administration costs and income, allocation to DSOs is in accordance with estimates made by relevant managers within the Department. Programme Costs and income are allocated at account code level to either a single or multiple DSOs, whichever is relevant.

Where costs and income are not specific to individual DSOs e.g. corporate overheads, they are allocated based on the proportion of directly attributed costs or income to each DSO. For example administration corporate overhead costs are apportioned according to the allocation of direct administration costs to DSOs. Items not falling under one of the DSOs include the salary of the Prime Minister and the Government Whips.

DSO 2a includes 50% of the dividend received by Treasury for its investment in the Bank of England which has more than doubled in 2008-09, contributing £168m towards the reduction of DSO 2a. The remaining 50% of the dividend from the Bank is allocated to DSO 2e. The costs incurred by HM Treasury in its role to reinforce financial stability and increase confidence in the markets have been allocated against DSO 2e, hence the substantial increase. The direct costs of the DMO (£9.7m in 2008-09 and £7.7m in 2007-08) and OGC (£16.5m in 2008-09 and £14.8m in 2007-08) are attributable to DSOs 1e and 1d respectively.

The notes on pages 182 to 263 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, except for the departure described below. 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 and the consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes. The Statement of Parliamentary Supply shows 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 shows 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.

Departure from FreM application

HM Treasury's Accounts Direction given in accordance with section 5(2) of the Government Resource Accounts Act 2000 allows for departures from the FReM in exceptional circumstances, where to comply with the FReM would not give a true and fair view. In these instances, any departure needs to be discussed with HM Treasury's Assurance and Financial Reporting Policy Team. One such instance which has arisen in 2008-09 is in relation to HM Treasury's investments in financial institutions and is discussed in more detail below.

Under UK GAAP, all investments are to be fair valued on the basis of market data where available, with cost used only where there is no observable data or alternative data as to the fair value of the investment. The FReM, which is based on adaptation or interpretation from UK GAAP, dictates that investments should be valued according to their type, depending on their national accounts classification. In general, public corporations are valued at cost. This adaptation in the FReM arose because the vast majority, if not all, of the investments in public corporations and others were those where there was no observable market data. At the time this adaptation was approved, it was not envisaged that the government would take controlling stakes in certain financial institutions, where there are clear indicators as to market value or viable fair value alternatives. Consequently, consistent with a true and fair view, HM Treasury has elected to depart from the FReM adaptation and disclose investments in financial institutions at a fair value where a market value or suitable alternative is available, consistent with the recommended UK GAAP treatment.

Application of FRS Standards 25,26 and 29 and UTIF Abstract 42

In line with the requirements of the FReM, the following accounting standards have been implemented in full for the first time in 2008-09:

- FRS 25 – Financial Instruments: Disclosure and Presentation;
- FRS 26 – Financial Instruments: Measurement, Recognition and De-recognition;
- FRS 29 – Financial Instruments: Disclosure; and
- UITF Abstract 42 - Re-assessment of Embedded Derivatives.

A first year adoption adjustment has been put through the General Fund in 2008-09 for financial guarantees in 2007-08.

International Financial Reporting Standards

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

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 and where appropriate the fair value of financial instruments.

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 Buying Solutions (Trading Funds), the Bank of England (incorporated by Royal Charter), Northern Rock Plc, Bradford and Bingley Plc, Lloyds Banking Group Plc, Royal Bank of Scotland Group Plc, Deposits Management (Heritable) Limited and UK Financial Investments Limited are not consolidated as they fall outside of the departmental boundary as defined by the FReM. Financial information about them may be obtained from their separately published annual reports and accounts and extracts from their accounts are shown in note 13.

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 of the Consolidated Fund and National Loans Fund; the National Loans Fund; the Debt Management Account; the Exchange Equalisation Account and the Contingencies Fund.

1.3 Valuation of Tangible and Intangible Fixed Assets

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

In line with the 2008-09 FReM, non-property assets with a low value and/or short useful economic life, are held at depreciated historical cost as a proxy for current value. Furniture and equipment, IT equipment and software licences for which the value is low and/or the useful economic life is short are stated at the depreciated current cost brought forward at 1 April 2006 for assets acquired before that date, and at depreciated historical cost for assets acquired subsequently.

For land and buildings, the 2008-09 FReM requires departments to hold land and buildings at valuation, following the most appropriate of the valuation methods set out in FRS 15. Accordingly, land and buildings are professionally valued, at existing use, every five years or when material changes are known to have arisen and are subject to an interim professional review three years after each full valuation, and an annual review by the Valuation Office Agency. Any upward revaluation is posted to the revaluation reserve unless deemed to reverse a previous impairment, then it is charged to the OCS. Any subsequent decrease in carrying value is charged to the OCS unless deemed to be temporary (reversing within three years) it is charged to the revaluation reserve. On sale of the asset any remaining balance in the revaluation reserve is released to the OCS.

Antiques in use are stated at estimated market value as at 31 March 2009.

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

1.4 Depreciation

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

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

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

1.5 Development Expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the 2008-09 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 Stocks

HM Treasury holds undistributed, finished coins as stock in its balance sheet. The stock is controlled by the Mint and held at their site in Llantrisant, Wales. The stock is valued at production cost, based on direct materials, labour and production overheads. Additionally, returned scrap and obsolete coinage continues to belong to HM Treasury and is shown in the balance sheet at net realisable value as scrap metal, prior to being sold on (see notes 14 and 25.1).

1.7 Operating Income

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

1.8 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 disbursements by the Department in support of financial services sector interventions and policies.

1.9 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 per cent (2007-08: 3.5 per cent) on the average carrying amount of all assets less liabilities except for:

- where individual rates of return have been set for investments in the Royal Mint (5.1 per cent) (2007-08: 7.2 per cent) and Buying Solutions (6.5 per cent) (2007-08: 6.5 per cent) which are applied to the underlying net assets of each body. In respect of the Royal Mint the methodology used to calculate the cost of capital charge in 2008-09 has been amended from the 2007-08 methodology to take account of working capital performance, which has had the effect of decreasing the cost of capital compared to 2007-08;

- loan investments with a higher coupon rate of return such as the Partnership UK loan stock (6.0 per cent) (2007-08: 4.8 per cent). The coupon remains unchanged from the 2007-08 level however legislation changed in the Income Tax Act 2007, such that departments of the Crown now receive interest gross (previously net of 20 per cent tax), therefore the rate of return has been increased to reflect the higher yield as tax is no longer deductible;
- 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; and
- when the rate intrinsic in the financial instrument is higher than the 3.5 per cent HM Treasury rate per the FReM, for example preference shares.

1.10 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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the OCS, except when deferred in equity as qualifying cash flow hedges, for example, the foreign currency discounted fees receivable on the Credit Guarantee Scheme.

1.11 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.

1.12 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 per cent (2007-08: 2.2 per cent) discount rate in line with HM Treasury guidance.

1.13 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 per cent (2007-08: 2.2 per cent).

1.14 Private Finance Initiative (PFI) Transactions

PFI transactions have been accounted for in accordance with Technical note No 1 (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. The PFI contract is assessed under FRS 26 Financial Instruments: Measurement, Recognition and De-recognition, and UITF Abstract 42: Re-assessment of Embedded Derivatives to determine whether there are any embedded derivatives in the contract, and if there are, whether these embedded derivatives are closely related and thus do not require separate disclosure.

1.15 Operating Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.16 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.

1.17 Provisions, Contingent Liabilities and Contingent Assets

A provision is a liability which is uncertain in timing or amount and is only recognised when it exists at the balance sheet date. A provision is recognised when the following three criteria are met, in line with FRS 12 – Provisions, Contingent Liabilities and Contingent Assets:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The discount rate applied to general provisions is 2.2 per cent, which is in line with the guidance issued by PES(2004) 04.

Generally, contingent liabilities and contingent assets are not recognised as liabilities or assets in the balance sheet of HM Treasury, but are shown as a separate note. A contingent liability is disclosed in the notes of HM Treasury's resource accounts when the possibility of an outflow of economic benefit to settle the obligation is more than remote. A contingent asset is disclosed in the notes of HM Treasury's resource accounts when an inflow of economic benefit is probable.

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote but which have been reported to Parliament in accordance with the requirements of Managing Public Money and Government Accounting Northern Ireland. 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 Financial Instruments

The department recognises, measures and discloses financial instruments following guidance in the FReM and UK GAAP.

1.18.1 Definition of Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is; cash; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity; or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is; a contractual obligation to deliver cash or another financial asset to another entity; or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.18.2 Categories of Financial Instruments

Financial instruments are classified under the following four categories which are determined at initial recognition:

- Financial assets/Liabilities at Fair Value through OCS;
- Loans and Receivables;
- Held-To-Maturity financial assets/liabilities; and
- Available-For-Sale financial assets/liabilities.

HM Treasury has financial instruments which have been categorised either as Financial Assets/Liabilities at Fair Value through OCS, Loans and Receivables or Available-For-Sale financial assets:

(a) Financial Assets/Liabilities at Fair Value through OCS

This category has two sub-categories:

- Financial assets Held-For-Trading; and
- Those designated at fair value through OCS at inception.

A financial asset or liability is classified as Held-For-Trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as Held-For-Trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through OCS when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as Held-For-Trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at Fair Value through OCS; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at Fair Value through OCS.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in the OCS.

These include forward contracts to acquire:

- currency; and
- shares.

(b) Loans and Receivables

Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) Those that the entity intends to sell immediately or in the short term, which are classified as Held-For-Trading, and those that the entity upon initial recognition designates as at Fair Value through OCS;

(ii) Those that the entity upon initial recognition designates as Available-For-Sale; or

(iii) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

These include:

- the loans given to Northern Rock Plc, Bradford & Bingley Plc and the FSCS; and
- the statutory debt with certain financial institutions and other receivables in respect of the depositor payouts.

(c) Available-For-Sale financial assets

Available-For-Sale investments are non-derivative financial assets that are either designated in this category or not classified in any other categories and are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

These include:

- equity investments which HM Treasury holds in Partnerships UK, Northern Rock, Bradford & Bingley, Lloyds Banking Group, Royal Bank of Scotland, UK Financial Investments Limited and Deposits Management (Heritable) Limited;
- the investment in the Bank of England; and
- public dividend capital held within the Royal Mint and Buying Solutions and bonds held in Partnerships UK.

Trade Date

Sales of Available-For-Sale financial assets are recognised on trade-date – the date on which HM Treasury's commitment becomes unconditional.

1.18.3 Initial Measurement of Financial Instruments

Financial assets carried at Fair Value through OCS are initially recognised at fair value, and transaction costs are expensed in the OCS. Financial assets not carried at Fair Value through OCS are initially recognised at fair value plus transaction costs.

The FReM states that Loans, Public Dividend Capital and other interests in public bodies outside the departmental boundary should be reported at historical cost, less any impairment. Please see paragraphs 4 and 5 of note 1 to see a departure from this FReM condition.

1.18.4 Subsequent Measurement of Financial Instruments

Available-For-Sale financial assets, except for those relating to public bodies are subsequently carried at fair value. In accordance with the FReM, public bodies are carried at historical cost. Public bodies include public dividend stock held in the Royal Mint and Buying Solutions and ordinary shares in UK Financial Investments Limited and Deposits Management (Heritable) Limited. However, HM Treasury has elected to depart from the FReM adaptation and disclose investments in public bodies at a fair value where a market value or suitable alternative is available, which is consistent with the recommended UK GAAP treatment.

Loans and Receivables, except those with public bodies, are carried at amortised cost using the effective interest method. In accordance with the FReM, loans and receivables with public bodies are carried at historical cost less any impairment.

Gains and losses arising from changes in the fair value of Available-For-Sale financial assets are recognised directly in the AFS Reserve, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the AFS Reserve is recognised in OCS. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as Available-For-Sale are recognised in the OCS. Dividends on Available-For-Sale equity instruments are recognised in the OCS when HM Treasury's right to receive payment is established.

1.18.5 Fair Value Estimation

The fair value of short-term deposits, loans and financial liabilities with a maturity of less than one year are assumed to approximate their book values.

The fair value of loans, receivables and financial liabilities with a maturity of greater than one year are estimated by discounting the future determinable cash flows at the higher of the HM Treasury cost of capital of 3.5 per cent and the intrinsic rate in the underlying financial instrument.

The fair value of ordinary shares where there is an observable market, is estimated with reference to the observable market.

The fair value of preference shares are estimated by discounting the minimum future determinable cash flows at the rate implicit in the underlying financial instrument, if higher than the HM Treasury rate of 3.5 per cent.

The fair value of forward contracts has been determined based on market forward exchange rates at the balance sheet date for currency contracts and known market rates for other forward contracts.

The fair value of financial guarantee liabilities are estimated as the fair value of the guarantee fee income where appropriate, assuming the fee has been set at a commercial market rate.

The fair value of the equity investment in non-public bodies (including the Bank of England and Partnerships UK) where there is no observable market is estimated as the net asset value per the published accounts of the investee bodies.

1.18.6 Impairment of Financial Assets

(a) Assets carried at Amortised Cost

HM Treasury assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that HM Treasury uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- breach of loan covenants or conditions; and
- deterioration in the value of collateral.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account in the balance sheet and the amount of the loss is recognised in the OCS. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, HM Treasury may measure impairment on the basis of an instrument's fair value using an observable market price.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the balance sheet and the amount of the reversal is recognised in the OCS.

(b) Assets classified as Available-For-Sale

HM Treasury assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as Available-For-Sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for Available For-Sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in OCS – is removed from equity and recognised in the OCS. Impairment losses recognised in the OCS on equity instruments are not reversed through the OCS. If, in a subsequent period, the fair value of a debt instrument classified as Available-For-Sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in OCS, the impairment loss is reversed through the OCS.

1.19 De-recognition of Financial Instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where HM Treasury has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

1.20 Derivative Financial Instruments and Hedging Activities

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The gain or loss on re-measurement is taken to the OCS except where the derivative is a designated hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. HM Treasury designates certain derivatives as either:

(i) Hedges of the fair value of an asset or liability (Fair Value Hedge);

(ii) Hedges of the cash income/cost of a highly probable forecasted transaction or commitment (Cash Flow Hedge); or

(iii) Hedges of a net investment in a foreign operation (Net Investment Hedge).

In order to qualify for hedge accounting, HM Treasury is required to document in advance the relationship between the item being hedged and the hedging instrument. HM Treasury is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis (80-125 per cent effective). The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

HM Treasury currently only have Cash Flow Hedges, where the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the OCS.

Amounts accumulated in equity are recycled in the OCS in the periods when the hedged item affects OCS. The gain or loss relating to the effective portion of forward currency contracts are recorded in the OCS.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the OCS. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the OCS.

The Credit Guarantee Scheme fee income foreign currency debtor and the associated forward currency contract derivative are the cash flow hedge item and cash flow hedge instrument respectively, together forming the cash flow hedge relationship.

The forward contracts to acquire shares are not hedged.

Derivative financial instruments are classified under financial instruments less than one year and greater than one year.

1.21 Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees have been issued by HM Treasury in the following instances:

- to participating institutions in various government financial stability schemes;
- to certain retail and wholesale depositors in certain financial institutions;

- to the Bank of England in relation to certain debt and equity facilities provided to certain institutions; and
- to the Bank of England in relation to various financial stability schemes.

At the balance sheet date, financial guarantees were issued to certain depositors in Bradford & Bingley and Northern Rock and various institutions under the Credit Guarantee Scheme. Other commitments given during the year have been accounted for as indemnities.

HM Treasury has announced its intention to issue guarantees to participating institutions after the balance sheet date in relation to a further government financial stability scheme (the Asset Protection Scheme (APS)), which will cover specified losses on assets in the scheme from 1 January 2009. See note 31.2 for further detail on the APS.

Financial guarantee liabilities and associated receivables are initially recognised in the financial statements at fair value on the date the guarantee was given.

Subsequent to initial recognition, HM Treasury's liabilities under such guarantees are measured at the higher of:

- the initial measurement, less amortisation calculated to recognise in the OCS the fee income earned as the service is provided; and
- the best estimate of the probable expenditure required to settle any financial obligation arising at the balance sheet date, in line with the definitions of FRS 12 – Provisions, Contingent Liabilities and Contingent Assets.

Any increase in the liability relating to guarantees is taken to the OCS.

2. Transfer of statistical reform team to Cabinet Office

With effect from April 2008, responsibility for the Statistical Reform Team transferred from HM Treasury to the Cabinet Office, resulting in the transfer of three full time equivalent posts (the remainder of the staff complement at the date of transfer). Following the disclosure requirements of FRS 6, the results, cash flows and assets related to transferred activities have been excluded from the start of the financial year. Prior year comparatives have been restated to exclude these costs (note 20).

The direct cost of the Statistical Reform Team in Request for Resources 1 in 2007-08 was:

	2007-08 **£000**
Staff costs	388
Other admin costs	11
Total	**399**

3. Analysis of net resource outturn by section

							2008-09	2007-08
	Admin	Programme	Gross Resource expenditure	Appropriations in Aid (note 9)	Net Total Outturn	Net total Estimate	Net Total Outturn compared with Estimate	Net Total Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1								
Departmental Expenditure Limit								
Core Treasury	167,341	8,715	176,056	(39,114)	136,942	136,942	-	137,643
DMO	12,926	4,663	17,589	(4,494)	13,095	13,096	1	9,899
Parliamentary	-	-	-	-	-	-	-	3,305
Statistics Commission	-	-	-	-	-	-	-	1,160
Annually Managed Expenditure								
Investment in Bank of England	-	125,768	125,768	-	125,768	125,768	-	93,520
Refinancing of Northern Rock	-	92,317	92,317	(92,317)	-	1	1	-
Assistance to other financial institutions	-	24,788,611	24,788,611	-	24,788,611	972,750	(23,815,861)	-
Cost of Capital Charge on financial investments and loans	-	808,878	808,878	-	808,878	808,878	-	-
Impairment	-	18,934,881	18,934,881	-	18,934,881	18,934,881	-	(14,957)
	180,267	**44,763,833**	**44,944,100**	**(135,925)**	**44,808,175**	**20,992,316**	**(23,815,859)**	**230,570**
Request for Resources 2								
Departmental Expenditure Limit								
UK Coinage: Manufacturing	-	15,172	15,172	-	15,172	18,300	3,128	15,676
UK Coinage: COC Stocks	-	96	96	-	96	100	4	45
Annually Managed Expenditure								
UK Coinage: Metal	-	24,161	24,161	-	24,161	28,000	3,839	23,704
UK Coinage: Cost of Capital Charge	-	144	144	-	144	175	31	98
UK Coinage: Investment in Royal Mint	-	2,521	2,521	-	2,521	2,800	279	4,166
	-	**42,094**	**42,094**	**-**	**42,094**	**49,375**	**7,281**	**43,689**
Request for Resources 3								
Departmental Expenditure Limit								
OGC	32,423	2,778	35,201	(11,690)	23,511	26,493	2,982	32,629
Resource Outturn	**212,690**	**44,808,705**	**45,021,395**	**(147,615)**	**44,873,780**	**21,068,184**	**(23,805,596)**	**306,888**
Banking and gilts registration services (expenditure outside Supply process (note 3.3))					11,305			11,358
Transfer of Statistical Reform Team to Cabinet Office					-			(399)
Operating income payable to the Consolidated Fund (note 9)					(2,684,652)			(139,236)
Net Operating Cost					42,200,433			178,611

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

HM Treasury's Net Total Estimate for 2008-09 corresponds to funding allocated in the Comprehensive Spending Review 2007. There was no draw down of additional funding from End Year Flexibility during the year. Outturn for the year was £44,873.8 million, up from £306.9 million in 2007-08, as a result of new initiatives faced by HM Treasury.

Compared to the Revised Spring Supplementary Estimate, Request for Resources 1 (Core Treasury and DMO) was overspent by £23,815.9 million. This compares to an underspend of £10.0 million in 2007-08. The overspend related to non-cash provisions required for the Resource Accounts in respect of the Asset Protection Scheme, which arose too late for inclusion in the Revised Spring Supplementary Estimate. The overspend was mitigated by the virement of an underspend from RfR 1 Section G 'Impairment of fixed assets' of £972.8 million. Other virements within RfR 1 included £6m from Section A 'Core Treasury & GSS' and £0.083 million from Section B 'DMO' to partially cover an overspend in Section C 'Investment in Bank of England' of £6.2m – the remainder of the overspend of £0.1 million was vired from Section G as was provision to cover an overspend of £109m in Section F 'Cost of Capital on Financial Investments'.

Request for Resources 2 (Coinage) Outturn was underspent by £7.3 million or 14.7 per cent, compared to £11.4 million or 20.7 per cent in 2007-08. £3.8 million of the underspend relates to the metal cost element (classified as AME) and the remaining £3.2 million underspend relates to the manufacturing cost element (classified as DEL). Both of these underspends were due to overforecasting in the Estimates, (see Chapter 5 for more information).

Request for Resources 3 Outturn was underspent by £3 million or 11.3 per cent, compared to £3.0 million or 8.4 per cent in 2007-08. This mainly relates to lower than expected pay, other staff related costs and consultancy and a less than expected increase in leasehold provision.

3.3 Expenditure Outside Supply Process

This relates to payments to Computershare Investor Services plc for management of the gilts register, which are paid from the National Loans Fund (NLF), and to the Bank of England for managing the Exchange Equalisation Account (EEA), which are paid from the EEA. These costs are also included within the NLF accounts and EEA accounts, respectively, for 2008-09.

4. Reconciliation of outturn to net operating costs and against administration budget

4.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	Outturn	Supply Estimate	2008-09 Outturn compared with Estimate	2007-08 (Restated) Outturn
		£000	£000	£000	£000
Net Resource Outturn	3	44,873,780	21,068,184	(23,805,596)	306,888
Non-supply income (CFERs)	9	(2,684,652)	(635,556)	2,049,096	(139,236)
Non-supply Expenditure	3	11,305	730,333	719,028	11,358
Transfer of function to Cabinet Office	2	-	-	-	(399)
Net operating cost		**42,200,433**	**21,162,961**	**(21,037,472)**	**178,611**

The Estimate figure (£730,333k) for non-supply expenditure includes Civil List (£8,259k) and Royal Household Pensions (£2,360k), which are not reported in the Resource Accounts.

4.2 Outturn Against Final Administration Budget

	Note	2008-09 Outturn	2008-09 Budget	2007-08 Outturn
		£000	£000	£000
Gross Administration Budget / outturn	3	212,690	211,659	185,395
Income allowable against the Administration Budget /outturn	9	(59,063)	(42,116)	(35,507)
Net outturn against final Administration Budget		**153,627**	**169,543**	**149,888**

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**	**21,068,184**	**44,873,780**	**(23,805,596)**
Capital:				
Acquisition of fixed assets – resources	11 & 12	-	2,852	(2,852)
Acquisition of financial assets	13	89,907,955	70,773,069	19,134,886
Unused provision written back	19	-	518,544	(518,544)
Non voted and non supply Capital Expenditure re Dunfermline (note 37.1)	13	-	(1,555,162)	1,555,162
Donated assets reserve	11	-	(1)	1
Accrual adjustments				
Non-cash items	8.1	(24,950,987)	(44,668,068)	19,717,081
Changes in working capital other than cash	18	-	(417,491)	417,491
Change in PFI creditor	24.2	-	(4,229)	4,229
Inter company transfers		-	34	(34)
Use of provision	19	3,210,900	18,786,381	(15,575,481)
Net Cash Requirement		**89,236,052**	**88,309,709**	**926,343**

6. Staff numbers and costs

6.1 Analysis of Total Costs Over Categories

	Ministers £000	Special Advisors £000	Permanent staff £000	Others £000	2008-09 Total £000	2007-08 Total £000
Wages and salaries[1]	1,708	425	61,117	8,973	72,223	74,364
Social Security costs	141	46	5,575	-	5,762	5,789
Other pension costs	1	99	12,809	-	12,909	13,850
Total costs	**1,850**	**570**	**79,501**	**8,973**	**90,894**	**94,003**
Less recoveries (income) in respect of outward secondments	-	-	(2,250)	-	(2,250)	(3,100)
Total net costs	**1,850**	**570**	**77,251**	**8,973**	**88,644**	**90,903**
Of which: Core Treasury						
Total costs	1,850	570	58,269	4,850	65,539	68,575
Less recoveries (income) in respect of outward secondments	-	-	(1,883)	-	(1,883)	(2,662)
Total net costs	**1,850**	**570**	**56,386**	**4,850**	**63,656**	**65,913**

The costs of Special Advisors include the Council of Economic Advisors.
Further staff costs of £121,059 are classified as programme and are included in Note 8 (current year).

In addition to the above, £533k staff costs (2007-08: £nil) have been charged to capital projects. Recoveries of £2,250k (2007-08: £3,100k) are shown as income in the operating cost statement.

6.2 Pension Schemes

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

For 2008-09, employers' contributions of £12,490k were payable to the PCSPS (2007-08: £12,388k) at one of four rates in the range 17.1 to 25.5 per cent (2007-08: 17.15 to 25.5 per cent) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 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 £89k (2007-08: £137k) 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 £7k (2007-08: £9k), 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 £2k (2007-08: £6k). Contributions prepaid at that date were nil.

[1] In addition to the above, £533k staff costs (2007-08: nil) have been charged to capital projects and £64k staff costs (2007-08: £96k) have been classified as programme and included in Note 8

6.3 Ill Health Retirement

During 2008-09 no one (2007-08: one person) retired early on ill-health grounds, resulting in additional accrued pension liabilities of nil (2007-08:£13k). The costs of such retirements are funded by normal contributions to the PCSPS.

6.4 Average Number of Persons Employed

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

			2008-09			2007-08 (Restated)
			Number			Number
Departmental Strategic Objective	**Ministers**	**Special Advisers**	**Officials**	**Others**	**Total**	**Total**
1a	0.2	0.2	47.5	0.3	48.2	40.4
1b	0.4	0.5	104.0	2.6	107.5	103.7
1c	0.9	1.1	262.0	12.5	276.5	321.3
1d	0.8	1.2	266.6	37.0	305.6	353.0
1e	0.4	0.5	116.1	20.4	137.4	153.6
Total DSO 1	**2.7**	**3.5**	**796.2**	**72.8**	875.2	972.0
2a	0.1	0.1	28.8	0.3	29.3	26.5
2b	0.3	0.4	79.3	2.1	82.1	80.6
2c	0.2	0.2	46.6	1.2	48.2	47.2
2d	0.5	0.8	174.0	7.4	182.7	180.8
2e	0.6	0.8	179.4	8.1	188.9	125.8
2f	0.1	0.1	28.6	1.1	29.9	31.0
2g	0.1	0.1	31.0	1.3	32.5	28.8
2h	0.4	0.5	118.3	5.2	124.4	132.7
Total DSO 2	**2.3**	**3.0**	**686.0**	**26.7**	718.0	653.4
Staff engaged on Capital Projects	-	-	6	1.3	7.3	0.0
Total	**5.0**	**6.5**	**1,488.2**	**100.8**	1,600.5	1,625.4
Of which:						
Core Treasury	**5.0**	**6.5**	**1,177.3**	**63.4**	1,252.2	1,248.8

The staff numbers in this table excludes the MOG transfer of 3 Statistical Reform Team posts to the Cabinet Office in April 2008.

Staff numbers have not reduced as much as anticipated in 2008-09 due to the additional demands on HM Treasury as a result of it current investment in the financial market crisis.

6.5 Additional Ministerial Salaries Borne by HM Treasury

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

Official title	**Name**	**2008-09 Salaries £000**	**2007-08 Salaries £000**
Prime Minister	Tony Blair (till June 2007)	-	30 - 35
	Gordon Brown (from June 2007)	130 - 135	95 - 100
Chief Whip (Commons)	Nicholas Brown (from Oct 08)	35 - 40	-
	Geoff Hoon (from June 2007 till Oct 08)	45 - 50	50 - 55
	Jacqui Smith (till June 2007)	-	25 - 30
Deputy Chief Whip (Commons)	Nicholas Brown (from June 2007 till Oct 08)	20 - 25	30 - 35
	Robert Ainsworth (till June 2007)	-	10 - 15
Chief Whip (Lords)	Lord Bassam (from Oct 08)	55 - 60	-
	Baroness Royall of Blaisdon (from June 2007 till Oct 08)	70 - 75	20 - 35
	Lord Grocott (till June 2007)	-	100 - 105
Deputy Chief Whip (Lords)	Lord Davies of Oldham	110 - 115	110 - 115
Lords in waiting (7 posts, 1 unpaid)		560 - 565	520 - 525
Government and Assistant Government Whips (16 posts, 1 unpaid)		390 - 395	360 - 365

7. Other administration costs

7.1 Summary	Core Treasury £000	2008-09 Group £000	Core Treasury £000	2007-08 (Restated) Group £000
Other administration costs	101,802	121,796	80,225	102,592
Exceptional item – disposal of Trevelyan House	-	-	3,385	3,385
Exceptional item – disposal of Thistle Street, Edinburgh	-	-	372	372
Total	**101,802**	**121,796**	**83,982**	**106,349**
7.2 Detail				
Staff-related costs, including training and travel	8,324	11,198	7,307	10,486
Accommodation costs:				
Interest element of on-balance sheet PFI contract	11,929	11,929	11,439	11,439
Service element of on-balance sheet PFI contract	4,444	4,444	4,630	4,630
Indexation of liability on PFI contract	6,021	6,021	7,395	7,395
Other accommodation costs	5,661	7,706	8,575	10,438
Office services	10,781	15,962	14,749	18,542
Consultancy	48,032	54,664	17,652	24,147
Other Admin professional services	3,999	5,940	5,187	11,004
Other	49	62	-	-
Non cash items				
Depreciation and similar charges:				
Depreciation and amortisation of fixed assets	4,655	5,609	4,846	5,893
Loss/(gain) on disposal of Trevelyan House	-	-	3,385	3,385
Loss/(gain) on disposal of Thistle Street, Edinburgh	-	-	372	372
Loss/(gain) on disposal of fixed assets	2	6	19	13
Auditor's remuneration	165	205	128	150
Cost of capital	(2,717)	(2,862)	(2,399)	(2,509)
Provisions:				
Provided in year	424	838	660	897
Release of surplus provision	-	-	-	-
Unwinding of discount on provision	33	74	37	67
Total non cash items	**2,562**	**3,870**	**7,048**	**8,268**
Total	**101,802**	**121,796**	**83,982**	**106,349**

Other administration costs include:

	Core Treasury £000	2008-09 Group £000	Core Treasury £000	2007-08 (Restated) Group £000
Hire of plant and machinery	441	478	62	99
Other operating leases	137	1,387	(300)	875
Research and development expenditure	128	251	118	150

No payments were made to the auditors in respect of non-audit services. A notional charge of £15,000 was made in respect of audit work in preparation for the introduction of International Financial Reporting Standards.

7.3 Costs incurred and related recoveries on financial stability interventions

Other administration costs also includes professional fees incurred in relation to the financial stability interventions. Some of these costs have been recharged to the institutions that have benefited from these measures as summarised in the table below.

Costs incurred and related recoveries		**2008-09**	**2007-08**
		£000	**£000**
Professional fees incurred*: -	Legal advice	16,454	6,852
	Financing advice	15,422	3,950
	Other advice	8,412	818
Other cost*		925	-
Total		**41,213**	**11,620**
Related recoveries**		38,742	11,620

* These are included in Note 7.2 under Consultancy and Other Admin Professional services.
** Included in Note 9 under Appropriated in Aid

2007-08 costs relate to Northern Rock where all the costs incurred were recoverable.

2008-09 costs relate to financial sector interventions including Northern Rock, Bradford & Bingley, Royal Bank of Scotland and Lloyds Banking Group. Costs have been recovered where agreements exist.

For details on financial stability interventions please see notes 29 to 38.

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8. Net programme costs

	2008-09		2007-08 (Restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Request for Resources 1				
Current grants	-	-	4,465	4,465
Cost of capital (non cash)	935,856	935,856	94,586	94,586
Exceptional item – building revaluation (non cash)	9,001	9,001	(14,957)	(14,957)
Impairment of financial assets (non cash, exceptional item)	18,925,881	18,925,881	-	-
Other current expenditure	99,823	104,485	2,398	5,190
Derivative fair value movement in OCS (non cash)	(590,735)	(590,735)	-	-
Provisions: APS (non cash, exceptional item)	25,000,000	25,000,000	-	-
Other Provisions: Provided in year (non cash)	379,345	379,345	-	-
	44,759,171	**44,763,833**	**86,492**	**89,284**
Request for Resources 2				
Cost of capital (non cash)	2,761	2,761	4,308	4,308
Other current expenditure	39,333	39,333	39,380	39,380
	42,094	**42,094**	**43,688**	**43,688**
Request for Resources 3				
Cost of capital (non cash)	-	1,686	-	1,295
Transfer from leasehold property provision (non cash)	-	546	-	321
Transfer to early departure, pension commitment and other provision (non cash)	-	(343)	-	(650)
Unwinding of discount on provisions (non cash)	-	206	-	142
Other current expenditure	-	683	-	123
Exceptional item: Restructuring exit costs (cash element)	-	-	-	4,935
Exceptional item: Restructuring exit costs (non cash)	-	-	-	5,365
	-	**2,778**	-	**11,531**
Non-supply - Banking and gilts registration services (note 3.3)	11,305	11,305	11,358	11,358
Sub total programme costs	**44,812,570**	**44,820,010**	**141,538**	**155,861**
Less programme income				
Request for Resources 1 - HM Treasury (note 9)	(2,764,517)	(2,766,269)	(132,676)	(134,056)
Request for Resources 2 - UK Coinage (note 9)	(4,588)	(4,588)	(4,877)	(4,877)
Request for Resources 3 – OGC (note 9)	-	(2,347)	-	(1,919)
	(2,769,105)	**(2,773,204)**	**(137,553)**	**(140,852)**
Net Programme Costs	**42,043,465**	**42,046,806**	**3,985**	**15,009**

8.1 Summary of Non Cash Transactions

	2008-09		2007-08	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Administration costs non cash items (note 7)	2,562	3,870	(7,909)	(6,689)
Programme costs non cash items (note 8)	44,662,109	44,664,198	98,894	105,367
Total non-cash transactions (cash flow statement and note 5)	**44,664,671**	**44,668,068**	**90,985**	**98,678**

9. Income and appropriations in aid

Operating income analysed by activities:

	2008-09			2007-08
	Appropriated in Aid	Payable to Consolidated Fund	Income included in OCS	Income included in OCS
	£000	£000	£000	£000
Administration income				
Core Treasury	38,837	6,455	45,292	18,767
DMO	2,994	834	3,828	4,610
OGC	9,594	349	9,943	13,373
	51,425	**7,638**	**59,063**	**36,750**
Programme income				
Request for Resources 1				
Pool Re insurance premiums (note 9.1)	244	91,868	92,112	37,286
Bank of England dividend	-	416,718	416,718	81,053
Other dividends and interest	92,318	866,661	958,979	2,847
Fees for financial guarantees	-	726,019	726,019	-
Foreign exchange gains	-	67,072	67,072	-
Amortisation of loans	-	62,571	62,571	-
Other current programme income	32	441,016	441,048	11,490
DMO	1,500	250	1,750	1,380
	94,094	**2,672,175**	**2,766,269**	**134,056**
Request for Resources 2				
Sale of coinage scrap metal	-	448	448	927
Royal Mint Dividend	-	4,040	4,040	3,900
Other Current income	-	100	100	50
	-	**4,588**	**4,588**	**4,877**
Request for Resources 3				
Other income	2,096	251	2,347	1,919
	2,096	**251**	**2,347**	**1,919**
Department total operating income	**147,615**	**2,684,652**	**2,832,267**	**177,602**

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 HM Treasury provides reinsurance for terrorist attacks on commercial or industrial property. Pool Re and Pool Re Nuclear pay a premium to HM Treasury, subject to a threshold level of funds. An additional payment was received in 2008-09 in respect of interest due.

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 2008-09		Outturn 2008-09
	Income £000	***Receipts £000***	**Income £000**	***Receipts £000***
Operating income and receipts – excess A-in-A	-	*-*	7,638	*7,638*
Other operating income and receipts not classified as A-in-A	635,556	*455,274*	2,677,014	*1,289,337*
Sub total	**635,556**	***455,274***	**2,684,652**	***1,296,975***
Non-operating income and receipts – excess A-in-A	-	*-*	-	*-*
Other non-operating income and receipts not classified as A-in-A	6,658,158	*6,658,158*	4,547,693	*4,547,693*
Other amounts collectable on behalf of the Consolidated Fund	1,341	*1,341*	-	*-*
Total income payable to the Consolidated Fund	**7,295,055**	***7,114,773***	**7,232,345**	***5,844,668***

Excess Appropriations in Aid relate to income from recharging professional fees to financial institutions. The Spring Supplementary Estimates had included revised totals for Appropriations in Aid in respect of such recharges but these were exceeded.

Other operating income and receipts not classified as appropriations in aid greatly increased during 2008-09. Income classified in this category includes loan interest received from Northern Rock, Bradford & Bingley and the Financial Services Compensation Scheme; dividend interest accrued in respect of preference shares in RBS and Lloyds Banking Group; underwriting income received on the recapitalisation of RBS and Lloyds Banking Group; fee income in respect of guarantees issued under the Credit Guarantee Scheme and in respect of guarantees issued to Northern Rock and Bradford & Bingley. It also includes dividends from the Royal Mint (RfR2) and from OGC Buying Solutions (RfR3).

Under the Financial Instruments Standards introduced for 2008-09, income in respect of financial guarantees are amortised and released to the OCS over the life of the guarantee (see note 1). This accounts for the significant difference between receipts during 2008-09 and income recognised in the OCS.

Non operating receipts not classified as Appropriations in Aid relate to loan repayments received, primarily from Northern Rock. Outturn was lower than the Spring Supplementary Estimate, which reflects a slower loan repayment profile than originally anticipated.

9.3 Non-Operating Income

	2008-09 £000	2007-08 £000
Core Treasury:		
Repayments of loan principal	4,547,657	-
Proceeds on disposal of fixed assets	22	2,331
OGC:		
Repayments of loan principal	-	2,716
Proceeds on disposal of fixed assets	14	14
Group Total	**4,547,693**	**5,061**

The repayment of loan principal above relates primarily to the Northern Rock loan and the balance relates to the Financial Services Compensation Scheme and ING Direct, in respect of repayments to depositors in the bank Kaupthing Singer & Friedlander (KSF) and as a result of a revision to the estimated size of retail deposits transferred. See also note 13.

10. Analysis of net operating cost

10.1 Analysis by spending body:

	Estimate £000	2008-09 Outturn £000	2007-08 (Restated) Outturn £000
Spending Body			
Core Treasury	21,123,372	42,165,513	133,310
OGC	26,493	22,908	30,936
DMO	13,096	12,012	9,900
Parliamentary Bodies	-	-	3,305
Statistics Commission	-	-	1,160
Net Operating Cost	**21,162,961**	**42,200,433**	**178,611**

10.2 Fees and charges analysis:

For information on DMO's fees and charges, please see the DMO Annual Accounts 2008-09 on www.dmo.gov.uk

Financial Stability Schemes and Interventions: In response to the current financial market stress and instability, the Government has taken decisive and immediate steps to limit the negative effects on the economy.

The Government's interventions have been targeted at tackling problems in individual institutions, addressing system-wide instability, and getting credit flowing through the economy once more. These interventions share the common purpose of protecting the customers of financial institutions from the consequences of financial instability.

Please see note 29 to 38 for details on interventions.

Details on total cost for Financial Stability Schemes and Interventions have been included in note 7 and details on total income have been included under individual notes on each intervention where applicable.

11. Tangible fixed assets

11.1 Summary

	Land & Buildings £000	Leasehold Improvement £000	Plant & Machinery £000	Furniture & Equipment £000	IT Equipment £000	Antiques £000	Assets under construction £000	Total £000
Cost/valuation								
At 1 April 2008	110,900	4,944	302	1,201	9,408	1,648	155	128,558
Transfers	-	-	-	-	-	-	(155)	(155)
Additions	-	81	130	19	911	1	-	1,142
Impairments	(9,001)	-	-	-	-	-	-	(9,001)
Disposals	-	(3)	(79)	(42)	(1)	-	-	(125)
At 31 March 2009	**101,899**	**5,022**	**353**	**1,178**	**10,318**	**1,649**	**-**	**120,419**
Accumulated								
At 1 April 2008	7,533	(1,339)	205	638	7,563	-	-	14,600
Transfers	(4,541)	4,541	-	-	-	-	-	-
Charge in year	1,706	889	32	120	1,073	-	-	3,820
Impairments	-	-	-	-	-	-	-	-
Released on disposal	-	-	(43)	(41)	-	-	-	(84)
At 31 March 2009	**4,698**	**4,091**	**194**	**717**	**8,636**	**-**	**-**	**18,336**
Net book value 1 April 2008	103,367	6,283	97	563	1,845	1,648	155	113,958
Net book value 31 March 2009	**97,201**	**931**	**159**	**461**	**1,682**	**1,649**	**-**	**102,083**

Included in tangible fixed asset additions is £196k (2007-08: £419k) of capital expenditure accruals.

The net book value of tangible fixed assets comprises:

	Core Treasury £000	DMO £000	OGC £000	Group £000
1 April 2008	113,378	548	32	113,958
31 March 2009	**101,463**	**610**	**10**	**102,083**

11.2 Land and Buildings

11.2.1 1 Horse Guards Road

The accounting treatment adopted by HM Treasury is consistent with that of HM Revenue and Customs in respect of the joint arrangement for the land and building on site. 1 Horse Guards Road is financed via a PFI contract and was last subject to a full valuation, carried out by the Valuation Office Agency (VOA), in November 2004. In line with our accounting policy, an interim valuation, also carried out by the VOA, was completed in January 2008 on the basis of existing use, which established an overall value of £110.9m; of which £83.175m was considered attributable to the building and £27.725m to the land. The building was subject to a depreciation charge of £1.706m during the year. A desk top revaluation was carried out by the VOA in 2008-09 resulting in a downward revaluation of £9m (see note 8).

12. Intangible fixed assets – software licences

	2008-09 £000
Cost/valuation	
At 1 April 2008	12,059
Transfers	155
Additions	1,710
Disposals	(55)
At 31 March 2009	**13,869**
Accumulated depreciation	
At 1 April 2008	9,316
Charge in year	1,789
Disposals	(55)
At 31 March 2009	**11,050**
Net book value 1 April 2008	2,743
Net book value 31 March 2009	**2,819**

Included in intangible fixed asset additions is £76k (2007-08: £208k) of capital expenditure accruals.

The net book value of intangible fixed assets comprises:

	Core Treasury £000	DMO £000	OGC £000	Group £000
1 April 2008	1,838	905	-	2,743
31 March 2009	**2,266**	**553**	-	**2,819**

13. Financial Assets and Liabilities

13a The Department holds the following financial assets to facilitate delivering its aim and objectives.

	At 1 April 2008 £000	Additions £000	Transfers £000	Loan Repayments £000	Fair Value Adjustment £000	Amortisation £000	Impairments £000	At 31 March 2009 £000
Core Treasury								
Available for Sale Assets (AFS)[1]								
Bank of England	2,293,000	-	-	-	1,028,000	-	-	3,321,000
Partnerships UK Ordinary Shares	7,865	-	-	-	-	-	-	7,865
Royal Mint	5,500	-	-	-	-	-	-	5,500
Northern Rock Ordinary and Preference Shares	-	-	-	-	-	-	-	-
Bradford & Bingley Ordinary Shares	-	-	-	-	-	-	-	-
RBS Preference Shares	-	5,000,000	-	-	52,647	-	-	5,052,647
RBS Ordinary Shares	-	14,969,238	-	-	-	-	(9,370,058)	5,599,180
LLOYDS Preference shares	-	1,000,000	3,000,000	-	44,484	-	-	4,044,484
LLOYDS Ordinary shares	-	4,477,322	8,479,901	-	-	-	(7,937,727)	5,019,496
HBOS Preference Shares	-	3,000,000	(3,000,000)	-	-	-	-	-
HBOS Ordinary Shares	-	8,479,901	(8,479,901)	-	-	-	-	-
UKFI Ordinary Shares	-	-	-	-	-	-	-	-
Deposits Management (Heritable) Ltd.	-	-	-	-	-	-	-	-
Core Treasury AFS Assets Sub total	**2,306,365**	**36,926,461**	**-**	**-**	**1,125,131**	**-**	**(17,307,785)**	**23,050,172**
Others								
Available for Sale Assets (AFS)								
Buying Solutions Public Dividend Capital	350	-	-	-	-	-	-	350
Others AFS Assets Sub total	**350**	**-**	**-**	**-**	**-**	**-**	**-**	**350**
Group total	**2,306,715**	**36,926,461**	**-**	**-**	**1,125,131**	**-**	**(17,307,785)**	**23,050,522**

[1] The category "available for sale" is consistent with terminology defined under UK GAAP. For a more detailed definition of "available for sale" see note 1.18.

	At 1 April 2008 £000	Additions £000	Transfers £000	Loan Repayments £000	Fair Value Adjustment £000	Amortisation £000	Impairments £000	At 31 March 2009 £000
Core Treasury								
Loans and Receivables[1]								
Partnerships UK Loan Stock	15,594	-	-	-	-	-	-	15,594
Northern Rock Refinancing of Loan[2]	19,300,000	(518,544[2])	(18,781,456)	-	-	-	-	-
Northern Rock loan	-	-	18,781,456	(4,219,977)	-	-	-	14,561,479
Bradford & Bingley statutory debt	-	4,094,977	-	-	-	52,433	(1,107,006)	3,040,404
Bradford & Bingley Working Capital facility	-	6,000,000	-	-	-	-	-	6,000,000
Bradford & Bingley loan asset		320,932	-	-	-	-	-	320,932
KSF statutory debt	-	550,000	-	(58,364)	-	3,830	(262,072)	233,394
London Scottish statutory debt	-	-	11,515	-	-	53	(4,547)	7,021
Heritable statutory debt	-	45,000	-	-	-	561	(11,380)	34,181
Icesave statutory debt	-	800,000	(260,183)	-	-	5,694	(130,273)	415,238
Dunfermline statutory debt	-	1,555,162	-	-	-	-	(102,818)	1,452,344
FSCS Bradford & Bingley Loan	-	14,207,293	-	-	-	-	-	14,207,293
FSCS KSF Loan	-	3,062,876	-	(269,316)	-	-	-	2,793,560
FSCS Heritable Loan	-	519,171	-	-	-	-	-	519,171
FSCS London Scottish Loan	-	100,000	(11,515)	-	-	-	-	88,485
FSCS Icesave Loan	-	3,109,741	260,183	-	-	-	-	3,369,924
Loans and Receivables Sub total	**19,315,594**	**33,846,608**	**-**	**(4,547,657)**	**-**	**62,571**	**(1,618,096)**	**47,059,020**
Core Treasury								
Derivative financial instruments								
Ordinary share forward contract	-	-	-	-	1,018,341	-	-	1,018,341
Forward Currency Contracts expiring within one year	-	-	-	-	8,872	-	-	8,872
Forward Currency Contracts due after more than one year	-	-	-	-	18,594	-	-	18,594
Derivative financial instruments Sub total	**-**	**-**	**-**	**-**	**1,045,807**	**-**	**-**	**1,045,807**

[1] Included in Loans and Receivables additions is £427.9 million (2007-08: £nil) of capital expenditure accruals.

[2] The negative addition relates to provision not required written back. Please see note 19 for further information.

13b Financial Liabilities

	At 1 April 2008 £000	Guarantees issued £000	Fair Value Adjustment £000	At 31 March 2009 £000
Core Treasury				
Financial Guarantees				
Credit Guarantee Scheme	-	2,261,443	-	2,261,443
Other	-	963,293	-	963,293
Derivative financial liabilities				
Ordinary share forward contract	-	-	427,607	427,607
Forward Currency Contracts expiring within one year	-	-	17,474	17,474
Forward Currency Contracts due after more than one year	-	-	21,721	21,721
Derivative financial instruments Sub total	**-**	**3,224,736**	**466,802**	**3,691,538**

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 of England's two core purposes are to ensure monetary and financial stability. The Bank of England operates the Special Liquidity Scheme and the Asset Purchase Facility. HM Treasury wholly owns the capital stock in the Bank of England. The Bank of England is required to pay HM Treasury in lieu of dividend a sum equal to 50 per cent of the Bank of England's net profit for its previous financial year, or such other sum as HM Treasury and the Bank of England may agree. A dividend of £417 million (2007-08: £81 million) is payable. The associated cost of capital is £125.7 million (2007-08: £93.5 million).

Extracts from the accounts of the Banking Department of the Bank of England for the year ended 28 February 2009 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.

13.1.1 Extracts from the Banking Department's Accounts for the Year Ended 28 February

	2009 £ million	2008* £ million
Extracts from the income statement		
Profit before tax	995	197
Corporation tax net of tax relief on payment to HM Treasury	(162)	(36)
Profit for the year attributable to shareholder	833	161
Payment to HM Treasury (see note 9)	(417)	(81)
Profit retained for the year	**416**	**80**
Extracts from the balance sheet		
Assets		
Loans and advances to banks and other financial institutions	136,829	62,855
Financial assets at fair value through profit and loss	3,334	3,742
Available for sale securities	3,937	3,852
Other assets	3,828	1,552
Total assets	**147,928**	**72,001**
Liabilities		
Money market instruments in issue	42,212	-
Deposits from central banks and other financial institutions	66,542	43,466
Financial liabilities at fair value through profit and loss	2,965	3,377
Other liabilities	32,888	22,865
Total liabilities	**144,607**	**69,708**
Total equity attributable to shareholder	**3,321**	**2,293**

*The Bank of England accounts for the year ending 29 February 2008 have been restated. There is no effect on the net asset position.

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 28 February 2009 totalled £48.61 billion (2008: £44.98 billion). The notes are a liability of the Bank of England, which must be backed by an equivalent value of securities. Total securities and other assets held by the Issue Department at 28 February 2009 were £48.61 billion (2008: £44.98 billion), which included the Ways and Means Advance to the National Loans Fund of £4.14 billion (2008: £7.37billion) 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 2009 was £2.188 billion (2008: £2.327 billion). This represents the interest on securities and other assets 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. HM Treasury wholly owns the Public Dividend Capital of the Royal Mint. In accordance with the FReM, HM Treasury's investment is shown at its historical cost. A dividend of £4 million is payable for 2008-09 (2007-08: £3.9 million). The associated cost of capital is £2.5 million (2007-08 £4.2 million). For details on the calculation of the cost of capital see note 1.9.

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

	2009 £000	2008 £000
Extracts from the profit and loss account		
Turnover	159,009	131,779
Operating profit	4,588	8,324
Net interest payable	(322)	(1,150)
Retained profit for the year	**4,266**	**7,174**
Extracts from the balance sheet		
Fixed assets	33,144	33,654
Current assets	68,655	72,895
Liabilities due within one year	(37,422)	(39,497)
Liabilities due after more than one year	(8,457)	(8,845)
Net assets and shareholder's funds	**55,920**	**58,207**

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 per cent of the shares being allocated to private investors, and 4.4 per cent being allocated to the Scottish Executive. HM Treasury retains an equity interest of 44.6 per cent of the shares.

As at 31 March 2009, the equity interest has been revalued to the net asset value per share of £5.24 compared to the value of £1.77 per share at 31 March 2008. The associated cost of capital charge is £273,000 (2007-08: £318,000). PUK has a policy of not paying dividends to its shareholders, with any surpluses being reinvested in the business. As such, no dividend was paid last year and none is expected in relation to 2008-09.

HM Treasury's holding of PUK Loan Stock is shown at historical cost. Interest at 6 per cent (gross) (2007-08 4.8 per cent (net)), of £936,000 (2007-08: £749,000) is receivable on the loan stock. Legislation changed during the year, under the Income Tax Act 2007, such that departments of the Crown now receive interest gross (previously net of 20 per cent tax). The associated cost of capital is £936,000 (2007-08: £749,000). For details on the calculation of the cost of capital see note 1.9.

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

	2009	2008
	£000	£000
Extracts from the profit and loss account		
Turnover: group and share of joint ventures	15,587	19,057
Loss on ordinary activities before taxation	(266)	(943)
Tax on loss of ordinary activities	-	(149)
Loss for the year	**(266)**	**(1,092)**
Extracts from the balance sheet		
Fixed assets	31,427	14,218
Current assets	25,244	44,528
Creditors falling due within one year	(4,282)	(5,019)
Creditors falling due after more than one year	-	(36,074)
Net assets and shareholders funds	**52,390**	**17,653**

For further information, refer to the full PUK Report and Accounts, which can be viewed on the following website www.partnershipsuk.org.uk

13.4 Buying Solutions

Buying 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 per cent of the issued Public Dividend Capital of Buying Solutions. In accordance with the FReM, OGC's investment is shown at its historical cost. A dividend of £2,082,000 is payable for the year ended 31 March 2009 (2007-08 £1,669,000). The associated cost of capital is £2,055,000 (2007-08 £1,791,000). For details on the calculation of the cost of capital see note 1.9.

13.4.1 Extracts from Buying Solutions' Accounts for the Year Ended 31 March

	2009	2008
	£000	£000
Extracts from the profit and loss account		
Turnover	91,789	75,479
Operating surplus	4,382	4,516
Net interest receivable	508	639
Surplus for the year	**4,890**	**5,155**
Dividend to be surrendered to OGC	(2,082)	(1,669)
Retained surplus	**2,808**	**3,486**
Extracts from the balance sheet		
Fixed assets	11,171	11,813
Current assets	33,415	25,193
Liabilities due within one year	(11,796)	(6,876)
Liabilities due after more than one year	(446)	(594)
Net assets and shareholder's funds	**32,344**	**29,536**

For further information, refer to the full Buying Solutions' Report and Accounts, which can be viewed on the following website www.buyingsolutions.gov.uk

13.5 Northern Rock plc

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

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

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

	2008 £ million	2007 £ million
Extracts from the income statement		
Total income	254	722
Loss before taxation	(1,356)	(168)
Tax on profit/(loss) of ordinary activities	46	(31)
Loss for the year	**(1,310)**	**(199)**
Extracts from the balance sheet		
Total assets	104,346	109,321
Total liabilities	(103,712)	(106,622)
Total equity	634	2,699
Total non-shareholders' funds	(1,036)	(1,036)
Net assets and shareholder's funds	**(402)**	**1,663**

For further information, refer to the full Northern Rock plc Report and Accounts, which can be viewed on the following website www.northernrock.co.uk

13.6 Bradford & Bingley Plc

Bradford & Bingley Plc (BB) is a UK based financial services business. On 29 September 2008 the Chancellor of the Exchequer announced under the Banking (Special Provisions) Act 2008 that all shares of BB were transferred into public ownership. Immediately after this transfer, BB's UK retail deposit along with its branch network and its Isle of Man operations were transferred to Abbey National plc. The remaining assets and liabilities of BB - principally comprising its mortgage book, personal loan book, headquarters and relevant staff, and treasury assets and its wholesale liabilities remain in public ownership and will be wound down over a period of time.

In accordance with the FReM, the shares are being carried at historic cost. This is currently shown as nil, since the historic cost to HM Treasury will be dependent on the valuation of the company by the valuer appointed on 24 June 2009 in accordance with the Bradford & Bingley Plc Compensation Scheme Order 2008. This valuation is pending (see note 30).

13.6.1 Extracts from Bradford & Bingley Plc's Accounts for the Year Ended 31 December 2008

	2008 £ million
Extracts from the income statement	
Total income	887
Profit before taxation	134
Tax on profit of ordinary activities	(116)
Profit for the year	**18**
Extracts from the balance sheet	
Total assets	55,923
Total liabilities	(54,765)
Net assets and shareholder's funds	**1,158**

For further information, refer to the full Bradford & Bingley's Report and Accounts, which can be viewed on their website www.bbg.co.uk

13.7 Deposits Management (Heritable) Limited

Deposits Management (Heritable) Limited (DMH) is a subsidiary of HM Treasury set up to facilitate the restructuring of Heritable Bank Plc. DMH has net assets of £0 million. In accordance with the FReM, the shares are being carried at historic cost.

Please see note 33 for further information on Heritable Bank Plc.

13.8 UK Financial Investments Limited

UK Financial Investments (UKFI) was created by the Government on 3 November 2008, as part of its response to the financial crisis, to manage the investments it has taken in UK banks in the interests of wider financial stability.

Its overarching objective is to protect and create value for the taxpayer as shareholder, with due regard to financial stability and acting in a way that promotes competition. UKFI's activities are governed by its Board, which is accountable to the Chancellor of the Exchequer and – through the Chancellor – to Parliament.

In accordance with the FReM, the shares are being carried at historic cost.

13.8.1 Extracts from UK Financial Investments Limited's Accounts for the Period Ended 31 March 2009

	2009 £000
Extracts from the income statement	
Total income	1,242
Administrative expenses	(1,242)
Profit/(loss) for the year	-
Extracts from the balance sheet	
Total assets	916
Total liabilities	(916)
Net assets and shareholder's funds	-

For further information, refer to the full UK Financial Investments Limited's Report and Accounts, which can be viewed on the following website www.ukfi.gov.uk

13.9 Royal Bank of Scotland Group Plc

The Royal Bank of Scotland Group Plc (RBS) is a British banking and insurance holding company.

On 13 October 2008, the Government announced that it was to make capital investments in RBS, Lloyds TSB and Halifax Bank of Scotland (HBOS) of up to £37 billion by underwriting open offers of new ordinary shares and purchasing preference shares in those institutions. To the extent that ordinary shares were not taken up by existing shareholders, HM Treasury was to acquire the remainder.

As a result of the arrangement, HM Treasury acquired approximately £15 billion of ordinary shares plus £5 billion of preference shares of RBS.

On 19 January 2009 the Government announced its agreement with RBS to convert HM Treasury's £5 billion preference share investment into new ordinary shares.

In order to fund the redemption of HM Treasury's preference share holding, RBS conducted an open offer of approximately £5 billion ordinary shares to all existing shareholders. The issue of the new ordinary shares and redemption of the preference shares was approved by shareholders at RBS's Extraordinary General Meeting on 3 April 2009.

In line with the terms of the conversion HM Treasury underwrote the open offer and subscribed to those shares not taken up by existing shareholders on the 15 April 2009. HM Treasury now holds 70.33 per cent of the total ordinary share capital of RBS.

Please see note 31 for further information on RBS.

13.9.1 Extracts from Royal Bank of Scotland Group Plc's Accounts for the Year Ended 31 December 2008

	2008 £ million
Extracts from the income statement	
Total income	25,868
(Loss) before taxation	(40,667)
Tax on loss of ordinary activities	2,323
Profit from discontinued operations, net of tax	3,971
Profit/(loss) for the year	**(34,373)**
Extracts from the balance sheet	
Total assets	2,401,652
Total liabilities	(2,321,154)
Net assets and shareholders' funds	**80,498**

For further information, refer to the full Royal Bank of Scotland Group Plc's Report and Accounts pages 174 & 175, which can be viewed on the following website www.rbs.com

13.10 Lloyds Banking Group Plc

The Lloyds Banking Group (LBG) was formed on the 19 January 2009 by the acquisition of HBOS by Lloyds TSB.

Following the announcement on 13 October 2008 by the Government to make capital investments in Lloyds TSB and Halifax Bank of Scotland (HBOS), HM Treasury undertook ordinary shares to the extent that they were not taken up by the existing shareholders.

Following the announcement, the capital investment by HM Treasury in HBOS and Lloyds TSB was:

- Underwriting placing and open offers of ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB; and
- Purchasing preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB.

The acquisition of HBOS resulted in HM Treasury holding 43.4 per cent in the enlarged ordinary share capital and £4 billion of the preference shares in LBG.

On 7 March 2009 the Government announced its agreement with LBG to convert HM Treasury's £4 billion preference share investment into new ordinary shares. On 8 and 11 June 2009 HM Treasury redeemed its preference shareholding. Please see note 32 for further information on LBG.

13.10.1 Extracts from Lloyds Banking Group Plc's Accounts for the Year Ended 31 December 2008

	2008 £ million
Extracts from the income statement	
Total income	7,013
Profit before taxation	807
Tax on profit of ordinary activities	38
Profit for the year	**845**
Extracts from the balance sheet	
Total assets	436,033
Total liabilities	(426,334)
Net assets and shareholders' funds	**9,699**

For further information, refer to the full Lloyds Banking Group Plc's Report and Accounts pages 97 & 98, which can be viewed on the following website www.lloydsbankinggroup.com

14. Stocks

	Core Treasury £000	2009 Group £000	Core Treasury £000	2008 Group £000
Coinage scrap metal stocks	54	54	140	140
Finished coinage stocks awaiting issue	5,829	5,829	7,905	7,905
Total	**5,883**	**5,883**	**8,045**	**8,045**

Following the implementation of a Service Level Agreement covering 2007-08 and 2008-09, HM Treasury pays for coins upon production. Production is in accordance with an agreed schedule and HM Treasury holds the stock of finished coins on its balance sheet, as shown above. The decrease in stock levels at 31 March 2009 compared to a year earlier is due to a policy move to a revised method of calculating buffer stock resulting in a slightly lower level than previously. There is no change to the arrangements in respect of scrap metal (see notes 1.6 and 25.1).

15. Debtors

15.1 Analysis by Type

	2009 Core Treasury £000	2009 Group £000	2008 Core Treasury £000	2008 Group £000
Amounts falling due within one year				
Other taxation and social security	4,126	4,154	2,018	1,925
Trade debtors	4,730	6,739	2,229	4,185
Deposits and advances	290	366	293	375
Other debtors	29	40	2	59
Prepayments and accrued income financed by Supply	23,727	26,898	4,385	7,456
Sub-total: Supply financed balances	**32,902**	**38,197**	**8,927**	**14,000**
Accrued income from the Bank of England due to the Consolidated Fund on receipt	908,448	908,448	81,000	81,000
Other accrued income due to the Consolidated Fund on receipt	151	151	15,074	15,074
Amounts due from the CF in respect of supply	5,513	4,224	-	-
Fee receivable for financial guarantees	1,083,672	1,083,672	-	-
	2,030,686	**2,034,692**	**105,001**	**110,074**
Amounts falling due after more than one year				
Other debtors (Supply financed)	-	9	-	9
Prefunding for premature retirements (Supply financed)	-	-	3	3
Fees receivable for financial guarantees	2,690,707	2,690,707	-	-
	2,690,707	**2,690,716**	**3**	**12**
Total	**4,721,393**	**4,725,408**	**105,004**	**110,086**
Of which				
Due to the Consolidated Fund on receipt	**4,682,978**	**4,682,978**	**96,074**	**96,074**

The monies due to the Consolidated Fund on receipt, as shown above, do not include accrued income in respect of the scrap metal stock held as at 31 March, or income in respect of financial stability interventions. These account for the increase in corresponding amounts shown in note 17.1.

The Bank of England dividend is normally paid in two instalments, on 5 April and 5 October. Accordingly, the first instalment for 2008-09 was £203.0m and was received on 5 April and surrendered to the Consolidated Fund on 8 April.

15.2 Intra Government Balances

	Amounts falling due within one year 2009 £000	Amounts falling due within one year 2008 £000	Amounts falling due after more than one year 2009 £000	Amounts falling due after more than one year 2008 £000
Balances with other central government bodies	5,701	6,669	-	3
Balances with local authorities	288	87	-	-
Balances with NHS Trusts	54	-	-	-
Balances with public corporations and trading funds	273	482	-	-
Sub total: intra government balances	**6,316**	**7,238**	**-**	**3**
Balances with bodies external to government	2,028,376	95,457	2,690,716	7,388
Total Debtors at 31 March	**2,034,692**	**102,695**	**2,690,716**	**7,391**

16. Cash At Bank And In Hand

	Core Treasury £000	2009 Group £000	Core Treasury £000	2008 Group £000
Balance at 1 April	1,555	3,504	4,308	8,558
Net change in cash balances - inflow/(outflow)	1,597	1,471	(2,753)	(5,054)
Balance at 31 March	**3,152**	**4,975**	**1,555**	**3,504**
The following balances were held at 31 March:				
Office of HM Paymaster General	3,152	4,790	1,555	3,171
Bank of England	-	184	-	332
Cash in hand	-	1	-	1
Balance at 31 March	**3,152**	**4,975**	**1,555**	**3,504**

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

	Note	2009 Group £000	2008 Group £000
Net Cash Requirement		(88,309,709)	(207,309)
From the Consolidated Fund (Supply) – current year	20	88,916,520	205,257
Unused supply surrendered	20	(612,000)	-
Amounts due to the Consolidated Fund received and not paid	17.1	9,200	2,540
Amounts due to the Consolidated Fund – received in a prior year and paid over	17.1	(2,540)	(5,236)
From the Consolidated Fund (non-Supply)	20	1,555,162	-
Capital transaction (non-Supply)	13	(1,555,162)	-
Advance from the Contingencies Fund		-	(306)
Increase/(decrease) in cash		**1,471**	**(5,054)**

17. Creditors

17.1 Analysis by Type

Amounts falling due within one year		2009		2008
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Trade creditors	2,067	2,795	1,077	4,456
Other creditors	2,043	2,557	1,982	2,283
Other taxation and social security	1,396	1,919	1,369	1,907
Accruals and deferred income	33,672	40,588	23,688	26,991
Capital accruals	427,909	428,181	409	627
Subtotal: Supply financed working capital creditors	**467,087**	**476,040**	**28,525**	**36,264**
PFI contract (note 24.2)	1,914	1,914	1,793	1,793
Amounts issued from the Consolidated fund for supply but not spent at year end	-	-	901	965
Consolidated Fund extra receipts received	8,017	9,200	987	2,540
Consolidated Fund extra receipts receivable	1,483,892	1,483,892	96,214	96,214
Total	**1,960,910**	**1,971,046**	**128,420**	**137,776**

Amounts falling due after more than one year		2009		2008
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
PFI contract (note 24.2)	162,150	162,150	158,044	158,044
Bond from sub-tenants	-	-	-	167
Total	**162,150**	**162,150**	**158,044**	**158,211**

17.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009	2008	2009	2008
	£000	£000	£000	£000
Balances with other central government bodies	1,496,411	103,414	-	-
Balances with local authorities	39	-	-	-
Balances with NHS Trusts	28	28	-	-
Balances with public corporations and trading funds	674	1,665	-	-
Sub total: intra government balances	**1,497,152**	**105,107**	**-**	**-**
Balances with bodies external to government	473,894	32,669	162,152	158,211
Total Creditors at 31 March	**1,971,046**	**137,776**	**162152**	**158,211**

18. Reconciliation of working capital movements for the purpose of the net cash requirement and the cash flow statement

	Note	2009 Group £000	2008 Group £000	Movement Group £000
Supply financed stock (finished coins)	14	5,829	7,905	(2,076)
Supply financed debtors due within one year	15	38,197	14,000	24,197
Supply financed debtors due after one year	15	9	12	(3)
Supply financed creditors due within one year	17	476,040	36,264	(439,776)
Supply financed creditors due after one year	17	-	167	167
Supply financed working capital movement for the Net Cash Requirement (note 5)				**(417,491)**
Stock movement	14	54	140	(86)
Debtors for income that will be surrenderable to the Consolidated Fund within one year	15	1,992,271	96,074	1,896,197
Debtors for income that will be surrenderable to the Consolidated Fund over one year	15	2,690,706	-	2,690,706
Financial guarantee liabilities	13b	(3,224,736)	-	(3,224,736)
Adjust for capital expenditure accruals	17	428,181	627	427,554
Working capital movement for the Cash Flow Statement				**1,372,144**

The stock movement of £86k (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	Northern Rock refinancing of loan £000	Financial stability provisions £000	Other £000	Early departure & pension commitments £000	Total £000
Core Treasury						
Balance at 1 April 2008	-	19,300,000	-	-	2,350	19,302,350
Provision established in year	-	-	25,294,700	84,644	-	25,379,344
Provision utilised in year	-	(18,781,456)	-	-	(976)	(18,782,432)
Provision not required written back	-	(518,544)	-	-	-	(518,544)
Transfer from/(to) OCS	-	-	-	-	424	424
Unwinding of discount	-	-	-	-	33	33
At 31 March 2009	**-**	**-**	**25,294,700**	**84,644**	**1,831**	**25,381,175**
Others						
Balance at 1 April 2008	7,391	-	-	275	8,046	15,712
Provision utilised in year	(1,134)	-	-	-	(2,815)	(3,949)
Transfer from creditors	-	-	-	-	-	-
Transfer from OCS	546	-	-	(250)	320	616
Unwinding of discount	139	-	-	-	108	247
At 31 March 2009	**6,942**	**-**	**-**	**25**	**5,659**	**12,626**
Group						
At 1 April 2008	7,391	19,300,000	-	275	10,396	19,318,062
At 31 March 2009	**6,942**	**-**	**25,294,700**	**84,669**	**7,490**	**25,393,801**

19.1 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 per cent (2007-08 2.2 per cent). The expected timings of any resulting transfer of economic benefits are considered to be £5,910 million within five years and the balance after five years.

19.2 Northern Rock refinancing of loan

The loan made to Northern Rock by the Bank of England in 2007-08 was refinanced by HM Treasury in August 2008. The amount refinanced was £518.5 million lower than that provided for in the prior year Resource Accounts. For further information, see note 13.

19.3 Financial stability provisions

The £25.3 billion is largely comprised of a £25 billion provision in relation to the Asset Protection Scheme. There is as yet no legally binding APS agreement with participating banks, however there is deemed to be a constructive obligation as defined under FRS 12. The terms of the APS have not yet been finalised. This is therefore a highly provisional loss estimate for the scheme, based on preliminary analysis of a sample of assets initially proposed to be included in the scheme, and the APS term sheet originally agreed in March 2009. It should therefore be viewed with considerable caution. The estimate could be subject to substantial revision (up or down) as further due diligence reports are completed and as the terms of the APS are finalised. Altered economic and market conditions would clearly also affect estimated losses. We are unable to take a view on the expected timing of transfer of any economic benefit.

The remaining £0.3 billion relates to onerous contract provisions for the potentially unrecoverable element of statutory debt payments yet to be made for commitments in excess of the FSCS limits. The expected timings of any resulting transfer of economic benefits are considered to occur within the next financial year.

For information on the fiscal implications of financial stability interventions, see Box 2.3 of the Budget 2009 document at www.hm-treasury.gov.uk.

19.4 Other Provisions

This includes indemnities (note 38.2), 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. The expected timings of any resulting transfer of economic benefits are considered to occur within the next financial year.

19.5 Early Departure & Pension Commitments

See statement of accounting policies - note 1.12. The expected timings of any resulting transfer of economic benefits are considered to be £6,429 million within five years and the balance after five years.

20. General fund

	2008-09 Core Treasury £000	2008-09 Group £000	2007-08 (Restated) Core Treasury £000	2007-08 (Restated) Group £000
General Fund at 1 April	**1,254,044**	**1,237,587**	**1,245,634**	**1,241,230**
Prior Period Adjustment (note 2)	-	-	(399)	(399)
Adjusted opening balance	**1,254,044**	**1,237,587**	**1,245,235**	**1,240,831**
Net Parliamentary Funding				
Drawn down	88,890,715	88,916,520	179,026	205,257
Surrender of current year supply	(612,000)	(612,000)	-	-
Deemed	901	965	306	3,017
Consolidated Fund creditor for cash unspent	-	-	(901)	(965)
Consolidated Fund debtor for cash not drawn	5,513	4,224	-	-
Sub-total: Net Cash Requirement		**88,309,709**		**207,309**
Consolidated Fund Standing Services (note 37)	1,555,162	1,555,162	-	-
Contingencies Fund advance	8,409,742	8,409,742	-	-
Repayment to Contingencies Fund	(8,409,742)	(8,409,742)		-
Net Transfer from Operating Statement				
Net operating cost for the year	(42,165,512)	(42,200,433)	(137,775)	(178,611)
Income not appropriated in aid payable to the Consolidated Fund	(2,682,968)	(2,684,652)	(137,543)	(139,236)
Non–operating income not appropriated in aid payable to the Consolidated Fund (note 9.3)	(4,547,679)	(4,547,693)	(2,331)	(5,061)
FRS 26 Financial Guarantee adjustment	98,940	98,940	-	-
Transfer of OGC fixed assets to GSS	-	-	8,073	-
Donated assets	1	1	-	-
Non-cash charges				
Notional audit fee	165	205	128	150
Cost of capital	935,900	937,439	96,495	97,680
Expenditure outside Supply process				
Banking and gilts registration services	11,305	11,305	11,358	11,358
Transfer from Revaluation Reserve (note 21)	-	-	3,167	3,167
Intra departmental consolidation adjustments	(11,462)	(34)	(11,194)	-
Balance at 31 March	**42,733,025**	**42,717,536**	**1,254,044**	**1,237,587**

21. Other reserves

21.1 Available for sale reserve

Available for sale reserve	2008-09 Core Treasury £000	2008-09 Group £000	2007-08 Core Treasury £000	2007-08 Group £000
Balance at 1 April	**1,007,409**	**1,007,450**	**571,519**	**571,560**
Arising on revaluation during the year (net)				
Financial Assets	1,058,154	1,058,154	435,890	435,890
Balance at 31 March	**2,065,563**	**2,065,604**	**1,007,409**	**1,007,450**

21.2 Hedging Reserve

Hedging reserve	2008-09 Core Treasury £000	2008-09 Group £000	2007-08 Core Treasury £000	2007-08 Group £000
Balance at 1 April	-	-	-	-
Arising on revaluation during the year (net)				
Loss/(Gain) foreign currency Forward Contracts	(6,717)	(6,717)	-	-
Balance at 31 March	**(6,717)**	**(6,717)**	-	-

21.3 Revaluation Reserve

Revaluation reserve	2008-09 Core Treasury £000	2008-09 Group £000	2007-08 Core Treasury £000	2007-08 Group £000
Balance at 1 April	**1,512**	**1,559**	**1,650**	**4,726**
Transfer from/(to) General Fund in respect of realised element of revaluation reserve				
Tangible assets and investments	-	-	(3,167)	(3,167)
Transfer of OGC fixed assets to GSS	-	-	3,029	-
Balance at 31 March	**1,512**	**1,559**	**1,512**	**1,559**

Total other reserves	2008-09 Core Treasury £000	2008-09 Group £000	2007-08 Core Treasury £000	2007-08 Group £000
At 1 April 2008	1,008,921	1,009,009	573,169	576,286
At 31 March 2009	**2,060,358**	**2,060,446**	**1,008,921**	**1,009,009**

The Other Reserves reflect 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 strategic objectives

	Programme grants and other current gross expenditure		Capital employed	
	2008-09	2007-08	2008-9	2007-8
	£000	£000	£000	£000
1a	-	-	(268)	(3,039)
1b	-	-	(603)	(8,033)
1c	235	6,744	(1,735)	(34,059)
1d	2,805	1,244	(2,854)	(38,773)
1e	58,220	2,824	5,271	(5,123)
Total DSO 1	**61,260**	**10,812**	**(189)**	**(89,027)**
2a	63,044	98,298	1,672,981	1,087,227
2b	-	-	(462)	(6,256)
2c	-	-	(273)	(3,655)
2d	1,251	1,154	22,658	7,782
2e	378,515	47,241	68,459,871	1,266,537
2f	(9)	23	(185)	(2,584)
2g	-	-	(202)	(2,448)
2h	1,767	19	(1,047)	(12,330)
Total DSO 2	**444,568**	**146,735**	**70,153,341**	**2,334,273**
Other costs	50	3,370	4,174	1,350
Exceptional items	44,314,132	10,300	(25,379,344)	-
Operating costs/net assets	**44,820,010**	**171,217**	**44,777,982**	**2,246,596**

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

22.1 Programme Grants and Other Gross Expenditure

The main items arising in both years are the cost of capital charge in respect of Treasury's investment in the Bank of England (split 50/50 between DSOs 2a and 2e); the cost of coinage (DSO 1e); and non-Voted expenditure on banking and gilts registration services (DSO 1e).

2008-09 totals also include the costs associated with Treasury's involvement in the financial markets (DSO 2e), and exceptional items of £18.8b in respect of impairments on investments and property values.

22.2 Capital Employed

Where assets or liabilities relate to specific DSOs they are attributed directly. For example, the £3.32m investment in the Bank of England is attributed to DSOs 2a and 2e; the £23.5m investment in Partnerships UK is attributed to DSO 2d; and the numerous investments in financial institutions and the resulting liabilities are attributed to DSO 2e, or exceptional items as appropriate.

Where assets or liabilities cannot be directly attributed to specific DSOs they are attributed based on the proportion of net administration costs to each DSO.

23. Capital commitments

		2008-09		2007-08
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Contracted capital commitments for which no provision has been made	56	56	-	-
Approved but not contracted capital commitments				
New equity/loans into Northern Rock	15,000,000	15,000,000	-	-
Increase B&B working capital loan	5,500,000	5,500,000	-	-
Other	250,185	250,185	4,200	5,240
Total	**20,750,241**	**20,750,241**	**4,200**	**5,240**

The above commitments are included in the Main Estimates for 2009-10 published on 18 June 2009.

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.

		2009		2008
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Land and buildings:				
Expiry within one year	221	221	-	-
Expiry after 1 year but not more than 5 years	-	-	-	962
Expiry thereafter	372	372	-	112
	593	**593**	**-**	**1,074**
Other:				
Expiry within one year	-	-	-	1
Expiry after 1 year but not more than 5 years	859	859	831	831
Expiry thereafter	-	-	-	-
	859	**859**	**831**	**832**

24.2 Commitments Under the PFI Contract for 1 Horse Guards Road

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

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership (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:	2009 Core Treasury £000	2009 Group £000	2008 Core Treasury £000	2008 Group £000
Rentals due within one year	13,650	13,650	13,702	13,702
Rentals due between two to five years	59,190	59,190	76,652	76,652
Rentals due thereafter	567,806	567,806	622,203	622,203
	640,646	**640,646**	**712,557**	**712,557**
Less interest element	(328,690)	(328,690)	(367,100)	(367,100)
Less uplift for inflation on future unitary payments	(147,890)	(147,890)	(185,620)	(185,620)
	164,066	**164,066**	**159,837**	**159,837**

Charge to operating Cost Statement and Future Service Charge Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of the on-balance sheet PFI transactions was £4,444k (2007-08: £4,630k).

At 31 March 2009 the Department was committed to pay service charges during the next year:

	2009 Core Treasury £000	2009 Group £000	2008 Core Treasury £000	2008 Group £000
Expiry within twenty five to thirty years	4,421	4,421	4,438	4,438

25. Other financial commitments

25.1 Manufacturing Coinage

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

For the year 2008-09 HM Treasury purchased 1,435.7 million (2007-08: 1,485.9 million) coins, translating to manufacturing charges for 1,682.89 million (2007-08: 1,794.4 million) factored units at a cost of £13.28 million (2007-08: £17.1 million) including VAT.

Pricing for 2009-10 is in line with 2008-09 but the methodology has been updated from a factored unit basis to an equalized margin basis across denominations. Metal prices for 2009-10 will be recharged to HM Treasury by the Mint (see notes 1.6 and 14)

25.2 Reinsurance

HM 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, HM Treasury's liability could be significant, but unquantifiable in the short term.

25.3 Commitments under Credit Guarantee Scheme

As at 31 March 2009 HM Treasury had committed to issue guarantees of £4.7 billion under the Credit Guarantee Scheme, which were subsequently issued in April 2009. The guarantees came in to effect on issue of the instruments and fees in relation to these guarantees will be recognised when receivable.

26. Financial Instruments

FRS 25, 26 and 29, "Financial Instruments", require the disclosure of the role that financial instruments have had during the period in creating or changing the risks that HM Treasury faces in undertaking its activities.

The following tables and narrative provide information on the financial instruments balances included in the 2008-09 resource accounts and analyse the extent of risks faced by HM Treasury, and how these risks have been managed.

26.1 Fair Value of Financial Assets and Liabilities

(i) Financial instruments measured at fair value using a valuation technique

The total decrease in fair value estimated using a valuation technique that was recognised in the OCS during the period is £1.62 billion (2007-08 £nil).

(ii) Financial instruments not measured at fair value

For all financial instruments the carrying amount is a reasonable approximation of fair value.

Equity investments held (such as UKFI, PUK, Bank of England, Royal Mint, and Buying Solutions), which are public bodies do not have a quoted market price in an active market, are measured at historical cost in accordance with the FReM and FRS 26. As there is no active market for these investments and no intention to sell them, since they are essential to the running of the economy, we do not disclose fair value comparative. For full details of the carrying value of equity instruments see note 13.

26.2 Income and Expense

The income and expense recognised in the OCS in relation to financial instruments include:

Financial instruments income/(expense)	2008-09 £m	2007-08 £m
Financial guarantee fees	725.9	98.9
Net gain on forward contract to buy ordinary shares	590.7	-
Foreign exchange gains	67.1	-

Other income and expense items not listed above, as they appear else where in these accounts, include interest income (note 26.5.1) and impairments expense (note 26.4).

26.3 Hedging

The fair value of the Credit Guarantee Scheme (CGS) fee income foreign exchange currency debtor and the fair value of the forward contract derivative net liability as at 31 March 2009 is £1.2 billion and £11.7 million respectively.

The term of the instruments guaranteed under the CGS will remain for no longer than three years. However extensions to these guarantees may be agreed up to the scheme end date of 9 April 2014. Fees for the guarantee are received from start of the guarantee till the end of the scheme and are paid three months in arrears and/or on maturity. The OCS is updated on the date of the receipt of the guarantee fee.

At 31 March 2009, a debit of £8.4 million was initially recognised in equity and an amount of £1.7 million was credited out of equity to the OCS (See note 21.2). During the term of the hedge relationship, the hedge is considered 100 per cent effective.

26.4 Analysis of Financial Assets

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment (see accounting policy note 1.18). The table below details all financial instruments which have been impaired in the year:

Impairments			**2008-09 £m**
	Original carrying amount	**Impairment allowance**	**Revised carrying amount**
Loans & receivables with financial institutions	6,796	(1,618)	5,178
Available for sale financial instruments	27,926	(17,308)	10,619
Total impairment allowance		**(18,926)**	

At 31 March 2008, HM Treasury held no impaired financial instruments.

Impairments are recognised based on HM Treasury's expected recoveries and discount rates used to price in the opportunity cost of funds utilised.

The following assets (comprised solely of aged trade debtors) are past due at the reporting date, but have not been impaired:

Assets past due but not impaired	**2008-09 £m**	**2007-08 £m**
Due in up to three months	6.3	4.0
Due in three months to six months	0.4	0.1
Over six months	0.1	0.1
Total	6.8	4.2

26.5 Financial Risk Management and Financial Risk Factors

HM Treasury's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. HM Treasury's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on HM Treasury's financial performance.

Risk management is carried out by the HM Treasury Board. HM Treasury Board identifies, evaluates and hedges where appropriate, financial risks in close co-operation with HM Treasury's policy teams / sub-committees: the Group Operations Committee, the Group Finance Committee, the Group Resource Audit Committee, the Exchequer Funds Audit Committee and the Group Finance Committee.

Traditional risk management (in the private sector) aims to maximise investor return while maintaining risk at an acceptable level. In its role as agent of the Government, HM Treasury accepts risk where the financial risks it bears through its financial services interventions are less than the risk of inaction to the economy as a whole. Through its risk management, HM Treasury seeks to minimise overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate. HM Treasury uses derivative financial instruments to hedge certain risk exposures.

26.5.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises foreign exchange risk, price risk and interest rate risk.

(i) Foreign exchange risk

HM Treasury takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates through the CGS Scheme (see note 38.1). This exposure is managed through foreign exchange forward contracts entered into at the inception of each individual guarantee. Presented below is the sterling equivalent of the foreign currency balance sheet assets and liabilities, analysed by their underlying foreign currencies.

At 31 March 2009 (sterling equivalent £ millions)	**GBP**	**USD**	**EUR**	**CHF**	**AUD**	**JPY**	**Total**
Assets							
- Financial guarantee debtor	2,537	557	562	1	31	86	3,774
- Foreign currency forward contract	-	18	-	-	-	9	27
- Available for sale financial assets	23,050	-	-	-	-	-	23,050
- Other	49,664	-	-	-	-	-	49,664
Liabilities							
- Financial guarantee liability	(2,116)	(512)	(480)	(1)	(30)	(86)	(3,225)
- Foreign currency forward contract	-	(4)	(34)	-	(1)	-	(39)
- Other	(2,466)	-	-	-	-	-	(2,466)
Net on-balance sheet financial position	**70,669**	**59**	**48**	**-**	**-**	**9**	**70,785**

The net position shown above is HM Treasury's exposure to foreign currency movements. The table below shows the effect of a 10 and 25 per cent strengthening/(weakening) of foreign exchange rates (relative to £ sterling) on the OCS. These variances were considered reasonably possible at the balance sheet date. Where there is no impact on the OCS, it is because these currency exposures are perfectly hedged.

At 31 March 2009 (sterling equivalent £ millions)	GBP	USD	EUR	CHF	AUD	JPY	Total
Impact on the OCS of changes in foreign exchange rates							
Strengthening of £ versus foreign currency of 10 per cent	-	6	5	-	-	1	12
Strengthening of £ versus foreign currency of 25 per cent	-	15	12	-	-	2	29
Weakening of £ versus foreign currency of 10 per cent	-	(6)	(5)	-	-	(1)	(12)
Weakening of £ versus foreign currency of 10 per cent	-	(15)	(12)	-	-	2	(29)

At 31 March 2008, HM Treasury held no foreign currency denominated assets or liabilities.

(ii) Price risk

HM Treasury is exposed to equity securities price risk through investments held by HM Treasury and classified on the consolidated balance sheet as Available-For-Sale.

Of HM Treasury's available for sale assets (see note 13), ordinary shares in Lloyds Banking Group (LBG) and The Royal Bank of Scotland (RBS) are listed on the London Stock Exchange (with a fair value of £10.6 billion at 31 March 2009). No market exists for the remaining investments, which are primarily other Government bodies that are never intended for sale. Such investments are primarily accounted for at historical cost and thus not exposed to price risk.

The below analysis shows the OCS impact of a 10 per cent and 25 per cent increase/(decrease) in the market price of the investments. These variances were considered reasonably possible at the balance date.

	Impact on OCS £m
Increase of 10 per cent	1,062
Increase of 25 per cent	2,655
(Decrease) of 10 per cent	(1,062)
(Decrease) of 25 per cent	(2,655)
Holding value at 31 March 2009	**10,619**

At 31 March 2008, HM Treasury held no listed available for sale financial instruments.

(iii) Interest rate risk

There are two types on interest rate risk: 1) cash flow and 2) fair value.

1) Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk arises on variable rate loans.

The table below shows the effect of movements in LIBOR or Bank of England Base Rate as appropriate, considered reasonably possible at the balance sheet date, on the OCS.

	Impact on OCS £m
Increase 50 bps[1]	80.2
Increase 100 bps	160.4
(Decrease) 50 bps	(80.2)
(Decrease) 100 bps	(154.8)
Total variable rate interest received in year	**449.1**

In the year to 31 March 2008, HM Treasury received no variable rate interest.

In the years to 31 March 2009 and 31 March 2008, HM Treasury incurred no interest expense.

2) Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk arises on fixed interest rate loans. It is considered that if LIBOR or the Bank of England Base Rate were to vary by the degree considered reasonably possibly above, there would be no impact on the carrying value of HM Treasury's fixed rate debt instruments.

26.5.2 Credit risk

Credit risk is the risk that a counterparty will cause a financial loss to HM Treasury by failing to discharge an obligation. HM Treasury is exposed to credit risk through schemes entered into by the Government. HM Treasury's credit risk arises from loans issued to financial institutions, financial guarantees, indemnities issued and private sector asset purchases by unconsolidated subsidiaries (see notes 29 to 38 for a full description of individual investments and schemes and exposures of each investment and scheme).

The below table shows the credit rating and the utilisation of the credit facilities of the major counterparties at the balance sheet date.

		£m Maximum Exposure 2008-09		£m Maximum Exposure 2007-08
Credit risk exposure relating to balance sheet assets are as follows:	Utilised	Total facility	Utilised	Total facility
Loans and advances to financial institutions:				
- In temporary public ownership				
Northern Rock	14,561	22,561	19,300	19,300
Bradford & Bingley	9,040	9,040	-	-
- Partnerships UK Loan Stock	16	16		
- Icelandic banks	683	683	-	-
- Dunfermline	1,452	1,452	-	-
- London Scottish Bank	7	7	-	-
- FSCS	21,299	22,177	-	-
Financial guarantee fees receivable	3,774	-	-	-
Other assets	1,978	-	110	-
Total	**52,810**	**55,936**	**19,410**	**19,300**

[1] Bps= basis points, where 100 basis points equals one per cent.

All of the counterparties HM Treasury is exposed to credit risk with (excluding Other assets) are rated as investment grade (AAA – BBB) by Fitch Ratings, an independent ratings agency. Other assets comprise various debtors of which no individual debtors are considered material enough to be disclosed separately. The amounts disclosed are net of any recoverability provisions.

As security on the loan to Northern Rock, HM Treasury holds a floating charge over the company and has a fixed charge over certain high quality mortgage assets, as well as all land and buildings owned by the company.

HM Treasury holds no other security over its loan assets.

26.5.3 Liquidity risk

Liquidity risk is the risk that HM Treasury is unable to meet its payment obligations associated with its financial liabilities as they fall due.

HM Treasury's liquidity management includes:

- monitoring cash flows to ensure that daily cash requirements are met; and
- reassessing the net cash requirement on a regular basis and reporting to Parliament as part of the Estimates process

The table below presents the undiscounted cash flows payable by HM Treasury under non-derivative and derivative financial liabilities by remaining contractual maturities at the balance sheet date. Liabilities disclosed in the table are the contractual undiscounted cash flows, whereas HM Treasury manages the inherent liquidity risk based on expected undiscounted cash flows. Derivatives are foreign exchange forward contracts and forward contracts to purchase ordinary shares. All of these derivatives will be settled on a gross basis.

As at 31 March 2009	**Up to 3 months**	**3-12 months**	**Over 1 year**	**Total £m**
Non derivative:				
Liabilities	1,417	1	162	1,580
Derivative:				
Forward ordinary share contracts	7,069	-	-	7,069
Forward currency contracts held for hedging:				
- Outflow	153	432	806	1,391
- Inflow	152	429	805	1,386

As at 31 March 2008	**Up to 3 months**	**3-12 months**	**Over 1 year**	**Total £m**
Non derivative:				
Liabilities	136	1	158	295

At 31 March 2008, HM Treasury held no derivative financial instruments.

27. Contingent Liabilities[1]

27.1 Contingent Liabilities Disclosed Under FRS 12

27.1.1 Guarantees and Indemnities

Northern Rock

In September, October and December 2007, HM Treasury announced guarantee arrangements in respect of retail and uncollateralised wholesale deposits and certain other uncollateralised and unsubordinated wholesale obligations of Northern Rock (see note 29 below). These guarantee arrangements will remain in place as long as the current period of financial instability lasts and will be terminable only upon the giving of three months. Maximum potential liabilities under this intervention are estimated to be £20.7 billion of which £0.3 billion are carried at fair value on the balance sheet at the balance sheet date.

HM Treasury has confirmed to the Financial Services Authority its intention to take appropriate steps to ensure that Northern Rock will continue to operate above the minimum regulatory capital requirements. On 1 July 2009 Northern Rock announced it had breached its regulatory capital requirements. It proposes to address this situation through a legal and capital restructuring of Northern Rock and HM Treasury's commitment to provide an adequate level of capital for Northern Rock to meet its regulatory capital requirements, once the proposed restructuring is completed and subject to appropriate State Aid clearance being obtained from the European Commission. Maximum potential liabilities under this intervention are unquantifiable.

HM Treasury has guaranteed indemnities provided by Northern Rock for the directors appointed post temporary public ownership against liabilities and losses in the course of their actions whilst the company is in public ownership. Since 31 March 2008, a decision has been made in respect of the new Northern Rock directors to extend the guarantee, referred to above, to existing directors for the period of temporary public ownership only. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury, under the terms of the loan agreements with Northern Rock, has also guaranteed a back up liquidity facility, secured against the assets of the company, to meet the FSA's requirements. This facility may remain in place beyond 2010 until sufficient alternative liquidity arrangements are in place. Maximum potential liabilities under this intervention are estimated to be £3.8 billion.

Bradford & Bingley

In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley (see note 30 below for further details). Maximum potential liabilities under this intervention are estimated to be £17 billion of which £0.6 billion are carried at fair value on the balance sheet at the balance sheet date.

HM Treasury has confirmed to the Financial Services Authority its intention to take appropriate steps, should it prove necessary, to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are considered unquantifiable.

[1] Certain contingent liabilities would be limited by recourse to assets if they were to crystallise. The amounts shown above are gross of any such offset. Contingent liabilities with recourse to equities have not been included.

HM Treasury has guaranteed indemnities provided by Bradford & Bingley for the directors appointed post public ownership against liabilities and losses in the course of their actions whilst the company is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has committed, in the Budget 2009, to provide a further £5.5 billion in working capital support to Bradford & Bingley in 2009-10.

Dunfermline

On 28 March 2009, the Financial Services Authority (FSA) found that the general conditions for entry into the Banking Act Special Resolution Regime were satisfied in the case of Dunfermline Building Society (see note 37 below). Under the resulting intervention Dunfermline's social housing was placed into a bridge bank, owned and controlled by the Bank of England. HM Treasury provided a guarantee to the Bank of England to underwrite any losses incurred through not being able to recover all the funds advanced in the form of loans and equity to bridge bank and a guarantee in respect of losses sustained in connection with bridge bank. Maximum potential liabilities under this intervention were estimated to be £190 million (see note 42.9).

The Bank of England has provided a short-term working capital facility of up to £10 million to help Dunfermline with an orderly wind down of its business and avoid a fire sale of its assets that could otherwise result in lower value for the business being realised. HM Treasury has provided a guarantee to the Bank of England to underwrite any losses the Bank of England will incur in managing the working capital facility. Maximum potential liabilities under this intervention are estimated to be £10 million.

Royal Bank of Scotland

As a condition of entry into the Asset Protection Scheme (see note 38.7 below), the Government agreed to provide additional capital to the Royal Bank of Scotland (see note 31). This took the form of £13 billion in exchange for B shares and a further £6 billion at RBS's option in 2010-11. Thus the maximum remaining potential liability under this intervention is £19 billion.

Heritable

HM Treasury has guaranteed indemnities provided by Deposits Management (Heritable) Limited for the appointed directors against liabilities and losses in the course of their actions. Maximum potential liabilities under this intervention are considered unquantifiable.

Credit Guarantee Scheme

Since October 2008 HM Treasury has made available guarantees to back banks' new short and medium term debt (see note 38.1). They will be made available for terms of up to 36 months to help refinance maturing wholesale funding obligations as they fall due. Maximum potential liabilities under this intervention are estimated to be £250 billion of which £2.3 billion are carried at fair value on the balance sheet at the balance sheet date.

Special Liquidity Scheme

HM Treasury has indemnified the Special Liquidity Scheme (see note 38.5 below) which allow banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills. Payment under the scheme would only arise if the capital losses exceed any surplus accruing to the Bank of England over the duration of the scheme. Maximum potential liabilities under this intervention are estimated to be £185 billion.

Recapitalisation Fund

Through the Recapitalisation Fund HM Treasury committed to provide capital to eligible banks to a maximum of £50 billion. Of this, £37 billion has already been advanced, creating a maximum remaining potential liability outstanding of £13 billion.

Bank of England Asset Purchase Facility

In January 2009, HM Treasury authorised the Bank of England to create a new fund, the Asset Purchase Facility (APF). The Chancellor authorised the Bank of England to purchase up to £50 billion of high quality private sector assets. HM Treasury has indemnified the Bank of England and the fund specially created by the Bank to implement the facility from any losses arising out of or in connection with the facility. In March 2009, the Chancellor authorised the APF to purchase UK Government debt on the secondary market. He also agreed that the Bank of England should be given the option to finance purchases under the facility using central bank money. He authorised an increase in the scale of the purchases to up to £150 billion of which up to £50 billion should be used to purchase private sector assets (see note 38.2). The maximum potential liabilities under this intervention are estimated to be £150 billion.

Asset Protection Scheme

To provide certainty and confidence to banks in their lending, the Government announced its intention to offer capital and asset protection on those assets most affected by the current economic conditions (see note 38.7 on the Asset Protection Scheme). The maximum potential liabilities under this intervention are estimated to be £457 billion.

27.1.2 Compensation Schemes

In accordance with section 5 of the Banking (Special Provisions) Act 2008 a Compensation Scheme has been established by the Northern Rock plc Compensation Scheme Order 2008. Under the scheme HM Treasury is liable to pay any amount of compensation considered to be payable by the independent valuer (who has been appointed to perform the functions under the Compensation Scheme Order) to persons who held shares in Northern Rock immediately before they were transferred to HMT and also to other parties who were affected by the provisions of the Transfer Order.

Legal proceedings have been brought by certain former shareholders in Northern Rock, challenging the validity of the statutory valuation assumptions which the independent valuer is required to apply in assessing compensation. In February 2009, the Administrative Court decided that the assumptions are valid. The former shareholders have appealed to the Court of Appeal, and its decision is awaited.

In accordance with section 5 of the Banking (Special Provisions) Act 2008 a Compensation Scheme has been established by the Bradford & Bingley plc Compensation Scheme Order 2008. Under the Scheme HM Treasury is liable to pay any amount of compensation considered to be payable by the independent valuer (who will be appointed to perform the functions under the Compensation Scheme Order) to persons who held shares in Bradford & Bingley immediately before they were transferred to HMT and also to other parties who were affected by the provisions of the Transfer Order.

27.1.3 Equitable Life Ex Gratia Payment Scheme

In January 2009, HM Treasury published "*The Prudential Regulation of the Equitable Life Assurance Society: the Government's response to the Report of the Parliamentary Ombudsman's Investigation*". In this response, the Government accepted that certain maladministration had occurred and apologised to Equitable Life policyholders. Further to this, the Government undertook to establish a fair ex gratia payment scheme for those Equitable Life policyholders who have suffered a disproportionate impact as a result of the relevant maladministration. The Government has invited Rt Hon Sir John Chadwick to advise the Government on matters relevant to the disproportionate impact suffered by current and former Equitable Life policyholders. With the benefit of Sir John's advice, and taking account of the position of the public finances and the need to ensure practicality of delivery, the Government will introduce the fair ex gratia payment scheme discussed above. As Sir John is only now commencing his investigation, the future cost arising from the scheme is considered unquantifiable.

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

	2009 £000	2008 £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 HM Treasury. HM Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity.	**Unquantifiable**	**Unquantifiable**

28. Losses And Special Payments

The Group's administration costs include £71k arising from 24 claims for losses, and claims waived or abandoned.

29. Northern Rock Additional Information

29.1 Background

Following an extended period of market turmoil the Chancellor of Exchequer announced on 22 February 2008, in accordance with the Banking (Special Provision) Act 2008, that the shares of Northern Rock plc (NR) had been transferred in to temporary public ownership (TPO). For full chronology of events up to 31 March 2008, please see HM Treasury's 2007-08 Resource Accounts.

On 5 June 2008, HM Treasury invited applications for the position of independent valuer to assess any compensation that may be payable to those who were affected by the Northern Rock Plc Transfer Order 2008. On 8 September 2008, HM Treasury Ministers, on the recommendation of an independent panel appointed Andrew Caldwell, Valuations Partner at BDO Stoy Hayward, as independent valuer (www.northernrockvaluer.org.uk) under the terms of the Northern Rock Plc Compensation Scheme Order 2008.

On 5 August 2008, the Government announced plans to strengthen NR's capital base through i) the conversion of £400 million of preference shares into ordinary shares and ii) a debt to equity swap of up to £3 billion. The Government remains committed to providing capital support of up to £3 billion as part of NR's revised business plan (announced on 23 February 2009) but as at 31 March 2009 this had not occurred. Due to the changes to NR's business strategy announced on 23 February 2009, the Government no longer intends to conduct the £400 million preference share conversion.

On 19 January 2009, the Government announced that it would consider further ways of increasing the confidence and capacity of institutions to lend. As a first step, the Government confirmed that NR was no longer actively pursuing a policy of rapidly reducing its existing mortgage book. On 23 February 2009, NR announced its plans to increase its mortgage lending by up to £14 billion over the next two years. A new business strategy was agreed which will see up to £5 billion of new mortgage lending for 2009 and between £3 billion and £9 billion from 2010 onwards, subject to market demand.

To enable NR to focus on new lending, the Government also announced that, subject to state aid approval, NR would be restructured. Government would increase the loan to NR and extend the repayment schedule. As announced in August last year, the Government will be strengthening Northern Rock's capital base by up to £3 billion. Further details will be published once the NR's revised business plan has been agreed. As at the date of publishing this report, the plan was not finalised.

29.2 Financial Transactions

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

29.2.1 Professional fees

The members of the Tripartite Authorities entered into a number of contracts for professional advice connected with the period of market instability and the provision of financial assistance to NR and advice in relation to NR more generally. The professional fees incurred by HM Treasury including those relating to NR have been included in "other administration costs" within the Resource Accounts (see note 7.3).

29.2.2 Recovery of costs and related income

NR agreed to indemnify HM Treasury for certain costs incurred. These recoveries have been accounted for as "administration income appropriation in aid" and used to offset operational costs (see note 9).

NR has been paying a monthly fee in respect of the guarantee arrangements. These fees, totalling £208.6 million in 2008-09 (£10.9 million in 2007-08), have been accounted for as Consolidated Fund Extra Receipts and have been surrendered, or are due to be surrendered, to the Consolidated Fund (see note 9.2).

Under the current arrangements, professional fees will continue to be incurred during the period of TPO and recharged to NR in accordance with the indemnity. The guarantee fees will continue to be receivable under the terms of the agreement between HM Treasury, the Bank of England and NR. However, subject to European Commission approval of the company's revised business plan, a new fee structure will be applied retrospectively from 1 April 2008.

29.2.3 HM Treasury's investment in NR

The ordinary and preference shares in NR have been brought on to HM Treasury's balance sheet at historic cost, (nil), in accordance with HM Treasury's accounting polices (see note 1).

29.3 Other disclosures relating to the financing of NR

29.3.1 HM Treasury loan to NR

On 28 August 2008, HM Treasury novated the NR loan of £18.78 billion on the same terms as the previous loan with the Bank of England. On novation, the risk of any claim under the indemnity provided to the Bank of England by HM Treasury against default by NR was effectively extinguished.

The gross loan as at the balance sheet date is £14.56 billion. The cost of capital charge is £0.29 million (being cost of 3.5 per cent on the average value on the balance sheet, see note 1.9). To facilitate the novation, HM Treasury paid off the loan capital in three instalments to the Bank of England during the period 28 August 2008 to 30 October 2008.

The interest receivable on HM Treasury's loan to NR for the period 31 March 2009 is £261.7 million. This included interest of £92.3 million incurred during the period 28 August 2008 to 30 October 2008 on the capital loan balance due to the Bank of England from HM Treasury. HM Treasury appropriated in aid £92.3 million to pay this over to the Bank of England. The remaining balance of £169.4 million has been surrendered to the Consolidated Fund. Payment in Kind (PIK) interest of £143.3 million, relating to the period to 31 March 2008, due from NR, has been deferred and rolled up as subordinated debt. The decision to roll-up the interest and subordinate it to rank alongside Tier 2 capital was taken in the context of HM Treasury's wider aim to create a period of stability for NR, and reduce outflow of capital from the company.

In the 2008-09 Resource Accounts, an adjustment has been made to recognise the prior year interest of £143.3 million. Interest of £7.5 million was accrued on the previous year's unpaid interest in 2008-09 Resource Accounts. These have been accounted for as Consolidated Fund Extra Receipts in the current year and will be surrendered to the Consolidated Fund.

HM Treasury, under the terms of the loan arrangements with NR, has also guaranteed a back-up liquidity facility of £3.8 billion as at 31 March 2009, secured against the assets of the company, to meet the FSA's requirements. The loan facility attracts a monthly commitment fee on the undrawn balance on a daily basis. If state aid approval is given, the terms of loan will change, retrospective to 1 April 2008.

30. Bradford & Bingley additional information

30.1 Background

Following turbulence in global financial markets, Bradford & Bingley (BB) found itself under increasing pressure as investors and lenders lost confidence in its ability to continue as a going concern without support from the public sector. The Financial Services Authority (FSA) determined on 27 September 2008 that the firm no longer met its threshold conditions under the Financial Services and Markets Act 2000 and FSA rules.

On 29 September 2008, in exercise of the powers under the Banking (Special Provisions) Act 2008 HM Treasury transferred the shares of BB into public ownership. Immediately after this transfer, BB's UK retail deposit business totalling £18.6 billion along with its branch network and its Isle of Man operations were transferred to Abbey National plc (Abbey). This transfer followed a competitive sale process for this part of the business, conducted by Morgan Stanley on behalf of HM Treasury.

In accordance with provisions of the Transfer Order, the Financial Services Compensation Scheme (FSCS) paid out approximately £14 billion to facilitate the transfer of deposits to Abbey. This was funded by a loan from the Bank of England to the FSCS which was later refinanced on 29 December 2008 by HM Treasury. HM Treasury made a payment to Abbey in relation to deposits which were not protected by the FSCS, amounting to approximately £4 billion – this amount is net of £612 million representing the consideration paid by Abbey for the business. In return, the FSCS and HM Treasury acquired rights in respect of the proceeds of the wind-down and realisation of the assets of the remaining business of BB.

Pending the outcome of ongoing due diligence, the total retail deposits and the split between those which are covered by the FSCS (up to the £35,000 threshold) and those which are not covered by the FSCS (in excess of the £35,000 threshold) is still to be confirmed.

The remaining assets and liabilities of BB - principally comprising its mortgage book, personal loan book, headquarters and relevant staff, and treasury assets and its wholesale liabilities remain in public ownership and will be wound down over a period of time.

To provide assurance to wholesale depositors and borrowers, and to preserve wider financial market stability in this case, HM Treasury put in place guarantee arrangements to safeguard certain wholesale borrowings and deposits with BB. The terms of the guarantee are considered in more detail below.

On 10 March 2009, HM Treasury invited applications for the position of independent valuer to assess any compensation that may be payable to BB's former shareholders and those affected by the Transfer Order. On 24 June 2009, HM Treasury Ministers, on the recommendation of an independent panel appointed Peter Clokey of PriceWaterhouse Coopers LLP, as independent valuer under the terms of the Bradford & Bingley Plc Compensation Scheme Order 2008 (OPSI website).

Last September, the Bank of England provided a working capital facility to BB to help with an orderly wind down. This was refinanced by HMT in December 2008. The working capital facility stood at £6 billion as at 31 March 2009. This has been further extended by £5.5 billion with effect from 1 April 2009.

30.2 Financial Transactions

As a result of the support and guarantee arrangements provided to BB, the review of options for resolution and the transfer of BB into public ownership (and the transfer of BB's retail deposit book, branch and agency network and share in its Isle of Man subsidiary to Abbey), HM Treasury incurred certain costs.

The following transactions have been included in these accounts:

30.2.1 Professional fees, recovery of costs and related income

The professional fees incurred by HM Treasury including those relating to BB have been included in "other administration costs" within the Resource Accounts (see note 7.3).

BB agreed to indemnify HM Treasury for certain costs incurred. Recoveries of these and other costs have been appropriated in aid to offset against costs. Amounts in excess of the HM Treasury Appropriation in Aid limit have been surrendered to the Consolidated Fund.

BB has also been accruing a monthly fee in respect of the guarantee arrangements and working capital facility. These fees, totalling £77 million, have been accounted for as Consolidated Fund Extra Receipts and are surrenderable to the Consolidated Fund (see notes 9.2).

Under the current arrangements, professional fees will continue to be incurred during the period of TPO and recharged to BB in accordance with the guarantee.

30.2.2 HM Treasury's investment in BB

The ordinary shares in BB have been brought on to HM Treasury's balance sheet at historic cost (nil) (see note 1).

30.2.3 Consideration for sale of retail deposits to Abbey National

BB's UK retail deposit liabilities of £18.6 billion (accompanied by a cash payment of £18 billion) were transferred to Abbey, along with its branch network and its Isle of Man operations, for consideration of £612 million. Under the terms of the Transfer Order, HM Treasury's obligation was to ensure that BB enjoyed the benefit of the £612 million. The mechanism for passing on this benefit is prescribed in the Transfer Order, which specifies that BB's liability to HM Treasury is reduced by the same amount.

30.3 Other disclosures relating to the financing of BB

30.3.1 HM Treasury loan to FSCS

The interest receivable on the HM Treasury's loan to the FSCS of £14 billion is twelve month LIBOR plus 30 basis points. As of 31 March 2009 HM Treasury has recognised £0.1 billion of interest from the FSCS on the loan. When HM Treasury refinanced the £14 billion Bank of England loan on the 29 December 2008, £0.2 billion of accrued interest was refinanced at the same time. The total accrued interest will be received from the FSCS in September 2009. Subsequent payments will be received annually thereafter.

The FSCS and HM Treasury have acquired rights in respects of the proceeds of the wind-down and realisation of the assets of the remaining business of BB.

30.3.2 HM Treasury loan to BB

HM Treasury has provided a working capital facility of £6.0 billion to BB as at 31 March 2009. The working capital facility will be repaid by BB in line with the agreed profile disclosed in BB's latest business plan. This working capital facility was initially issued by the Bank of England and refinanced by HM Treasury.

The loan facility attracts monthly interest and also a monthly commitment fee on the daily balance on the proportion of the working capital facility drawndown but not used.

The interest due on the working capital facility at 31 March 2009 is £31.7 million, which will be surrendered to the Consolidated Fund. The £4 billion provided by HM Treasury for the retail depositors' balances in excess of £35,000 (the then FSCS depositor compensation limit) is a claim on BB. It is not accruing any interest. After 31 March 2009, HM Treasury and FSCS were required to pay a further amount of £428 million (net of interest) to Abbey. This is reflected in the 2008-09 Resource Accounts.

The total cost of capital charge for the BB financial interventions is £256 million (being 3.5 per cent on the average value on the balance sheet, see note 1.9).

30.3.3 The Guarantee

HM Treasury has ensured that unsecured and unsubordinated wholesale deposits and unsecured and unsubordinated wholesale borrowings, existing as at midnight on 28 September 2008 (the "Relevant Time") and any accumulated interest on them will be repaid when falling due. The guarantee arrangements also covered unsecured swap and other derivative contracts entered into by BB existing as at the relevant time. HM Treasury on 27 March 2009 sought approval from the European Commission (the Commission) to approve the continuation of the guarantee arrangements.

The guarantee arrangements will remain in place while the Commission considers HM Treasury's request. If approved by the Commission, the guarantee arrangements will continue until the wind-down of BB is completed.

For further information on the Guarantee please see HM Treasury's website www.hm-treasury.gov.uk

31 Royal Bank of Scotland additional information

31.1 Background

During 2008, Royal Bank of Scotland (RBS) sought additional capital from shareholders to enable it to weather the current instability in the financial markets and meet the higher capital ratios that markets demanded.

On 8 October 2008, the Government announced a recapitalisation scheme under which capital support would be made available to eligible institutions from public sector resources.

On 13 October 2008, the Government announced that it was to make capital investments in RBS, Lloyds TSB and HBOS of up to £37 billion by underwriting open offers of new ordinary shares and purchasing preference shares in those institutions. To the extent that ordinary shares were not taken up by existing shareholders, HM Treasury was to acquire the remainder. The investments were intended to make new tier 1 capital available to the institutions, strengthening their resources and permitting them to restructure their finances while maintaining support for the real economy.

As a result of the arrangement, in December 2008, HM Treasury acquired approximately £15 billion of ordinary shares plus £5 billion of preference shares in RBS. No dividends in respect of ordinary shares could be paid whilst the preference shares were outstanding.

On 19 January 2009 the Government announced its agreement with RBS to convert HM Treasury's £5 billion preference share investment into new ordinary shares.

In order to fund the redemption of HM Treasury's preference share holding, RBS conducted an open offer of approximately £5 billion ordinary shares to all existing shareholders. The issue of the new ordinary shares and redemption of the preference shares was approved by shareholders at RBS's Extraordinary General Meeting on 3 April 2009.

In line with the terms of the conversion HM Treasury underwrote the open offer and subscribed to those shares not taken up by existing shareholders. The subscription price due from HM Treasury for these shares was then offset against RBS's obligation to pay the redemption price in respect of the preference shares (together with the accrued coupon and the underwriting fees) to HM Treasury.

The results of the open offer were announced on 7 April 2009, allowing the redemption to take place on 15 April 2009. HM Treasury now holds 70.33 per cent of the total ordinary share capital of RBS.

In conjunction with the measures provided for by the Asset Protection Scheme (APS) (expanded upon below), and as part of the Government's commitment to financial stability, HM Treasury announced on 26 February 2009 an agreement in principle to inject a further £13 billion of capital into RBS in exchange for B shares and committed to subscribe for a further £6 billion of B shares at RBS's option (in addition to the B shares mentioned in relation to the APS noted below).

31.2 Asset Protection Scheme

On 26 February 2009 RBS announced its intention to place £325 billion of assets into the APS. A term sheet was agreed between HM Treasury and RBS at that point. Since then, HM Treasury and RBS have been negotiating detailed terms on the APS. HM Treasury has also been conducting due diligence on the assets that RBS intends to place in the APS. We expect to reach fully binding agreements in due course and will make further announcements when we do so.

The term sheet sets out that RBS will bear a first loss amount of £42.2 billion in relation to protected assets. Any losses beyond this will be borne 90 per cent by HM Treasury and 10 per cent by RBS.

HM Treasury will recover professional fees incurred in setting up the APS from the participating institutions.

As part of this deal RBS has agreed to increase its lending by an additional £25 billion in 2009; £9 billion for mortgage lending and £16 billion for business lending. It has made a similar total commitment for 2010, depending on market conditions.

Furthermore, RBS will agree not to claim certain UK tax losses or allowances. The tax value of the losses for the whole period of the undertaking is yet to be determined, and is not accountable in HM Treasury's Resource Accounts but will impact HMRC's Trust Statement in future years.

For further details of the APS please see note 38.7.

31.2.1 Consideration

In consideration for the cover under the APS, RBS will pay a fee of £6.5 billion in new irredeemable, non-voting B shares that will constitute Core Tier 1 Capital. As at date of signing the Resource Accounts, these B shares are yet to be issued. Under the current draft terms, the B shares will pay a non -cumulative dividend at the higher of a 7 per cent coupon and 2.5 times any dividend paid in respect of ordinary share. Non-cumulative dividends will be declared at the discretion of the Board of Directors or a Committee. B shares' dividends shall be paid in priority to any dividend on any other class of ordinary share capital.

Under the current draft terms, the B shares will be convertible to ordinary shares at any time at the option of HM Treasury at a price of 50 pence per ordinary share, or mandatorily convertible into ordinary shares at 50 pence per ordinary share when the ordinary share price is 65 pence per share for 20 trading days in any 30 day trading period. In any liquidation, the B shares will rank *pari passu* with the ordinary shares of RBS.

The draft terms of the deal are yet to be finalised.

31.3 Recovery of costs and related income

HM Treasury charged RBS an underwriting fee of 0.5 per cent on all shares underwritten and 1 per cent on shares purchased by HM Treasury on 1 December 2008. This fee was £224.7 million. This has been surrendered to the Consolidated Fund.

In addition, HM Treasury will charge RBS for all legal, financial and other costs incurred in relation to RBS's participation in the recapitalisation scheme and APS. These costs have been included in "other administration costs" within the Resource Accounts (see note 7.3).

Amounts for these and other recoveries have been appropriated in aid to offset against costs. Amounts in excess of the HM Treasury Appropriation in Aid limit have been surrendered to the Consolidated Fund.

31.4 HM Treasury's investment in RBS

The ordinary shares in RBS were brought on to HM Treasury's balance sheet at £15 billion and the preference shares at £5 billion. These investments were recorded at fair value on initial recognition, the best estimate of which was the fair value of consideration paid.

In line with UK GAAP, Ordinary and preference share holdings are categorised as "Available For Sale" (AFS) and are to be fair valued at subsequent reporting dates with any movement in the fair value, not deemed to be an impairment, or dividend income, going to the reserves. Any impairment in carrying value or dividend income is recorded in the OCS. This is a departure from the Financial Reporting Manual (FReM) as detailed in note 1: Statement of Accounting Policies.

On 15 April 2009, HM Treasury redeemed its preference shareholdings.

The preference shares earned a dividend of 12 per cent up until the redemption date.

The cost of capital charge is £131.5 million (cost of capital is charged at a rate of 3.5 per cent on the value in the balance sheet, see note 1.9).

32. Lloyds Banking Group additional information

32.1 Background

On 18 September 2008, Lloyds TSB announced that it intended to merge with Halifax Bank of Scotland (HBOS), to form the Lloyds Banking Group (LBG).

On 8 October 2008, the Government announced a recapitalisation scheme under which capital support would be made available to eligible institutions.

On 13 October 2008, the Government announced that, it was to make capital investments in RBS, Lloyds TSB and HBOS of up to £37 billion by underwriting open offers and placings of new ordinary shares and purchasing preference shares in those institutions. To the extent that ordinary shares were not taken up by existing shareholders, HM Treasury undertook to acquire the remainder. The investments were intended to make new tier 1 capital available to the institutions, strengthening their resources and permitting them to restructure their finances while maintaining support for the real economy.

The structure of this capital investment in HBOS and Lloyds TSB was:

- Underwriting placing and open offers of ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB;
- Purchasing preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB.

HBOS and Lloyds TSB merged on 19 January 2009, with ordinary shareholders of HBOS receiving 0.605 ordinary shares in LBG for every 1 HBOS share they held. At the same time, an offer was made to HM Treasury to exchange HM Treasury preference shares in HBOS for equivalent preference shares in LBG. The merger resulted in HM Treasury holding 43.4 per cent of the enlarged ordinary share capital and £4 billion of preference shares in LBG.

On 7 March 2009 the Government announced its agreement with LBG to convert HM Treasury's £4 billion preference share investment into new ordinary shares. This restructuring received shareholder approval on 5 June. Existing shareholders had the opportunity to subscribe for new ordinary shares at a price of 38.43 pence per ordinary share (a discount of 8.5 per cent to the closing price on 6 March 2009). Shares not taken up by existing shareholders were placed in the market. HMT subscribed to its pro-rata entitlement under the open offer. This means its voting ownership is unchanged at 43.4 per cent.

32.2 Asset Protection Scheme

On 7 March 2009 LBG announced its intention to place £260 billion of assets into the Asset Protection Scheme (APS). A term sheet was agreed between HM Treasury and LBG at that point. Since then, HM Treasury and LBG have been negotiating detailed terms on the APS. HM Treasury has also been conducting due diligence on the assets that LBG intends to place in the APS. We expect to reach fully binding agreements in due course and will make further announcements when we do so.

The term sheet sets out that LBG will bear a first loss amount of £35.2 billion in relation to protected assets. Thereafter losses will be borne 90 per cent by HM Treasury and 10 per cent by LBG.

HM Treasury will recover professional fees incurred in setting up the APS from the participating institutions.

LBG has agreed to increase its lending by an additional £14 billion over the next 12 months; £3 billion for homebuyers and £11 billion for business lending. It has made a similar commitment for 2010, depending on market conditions.

For further details of the APS please see note 38.7.

32.2.1 Consideration

In consideration for the cover under the APS, LBG will pay a fee of £15.6 billion in new irredeemable, non-voting B shares that will constitute Core Tier 1 Capital. As at date of signing these Resource Accounts, these B shares are yet to be issued. Under the current draft terms, the B shares will pay a non-cumulative dividend at the higher of a 7 per cent annual dividend or 1.25 times any dividend paid in respect of ordinary shares. Non-cumulative dividends will be declared at the discretion of the Board of Directors or a Committee. B shares' dividends shall be paid in priority to any dividend on any other class of ordinary share capital.

Under the current draft terms, the B shares will be convertible to ordinary shares at any time at the option of HM Treasury at a price of 115 pence per ordinary share, or mandatorily convertible into ordinary shares at 115 pence per ordinary share when the ordinary share price is 150 pence per share for 20 trading days in any 30 day trading period. In any liquidation, the B shares will rank *pari passu* with the ordinary shares of LBG.

The draft terms of the deal are yet to be finalised.

32.3 Recovery of costs and related income

HM Treasury charged Lloyds TSB an underwriting fee of 0.5 per cent on all shares underwritten and 1 per cent on shares purchased by HM Treasury on 13 January 2009. This fee was £67.3 million. This has been surrendered to the Consolidated Fund.

HM Treasury charged HBOS an underwriting fee of 0.5 per cent on all shares underwritten and 1 per cent on shares purchased by HM Treasury on 15 January 2009. This fee was £127.3 million. This has been surrendered to the Consolidated Fund.

In addition, HM Treasury has charged LBG for all legal, financial and other costs incurred in relation to LBG's participation in the recapitalisation and asset protection schemes. These costs have been included in "other administration costs" within the Resource Accounts (see note 7.3).

Amounts for these and other recoveries have been appropriated-in-aid to offset against costs. Amounts in excess of the HM Treasury Appropriation in Aid limit have been surrendered to the Consolidated Fund.

32.4 HM Treasury's investment in LBG

The ordinary shares in LBG have been brought on to HM Treasury's balance sheet at £13 billion and the preference shares at £4 billion. These investments were recorded at fair value on initial recognition, the best estimate of which was fair value of consideration paid.

In line with UK GAAP, Ordinary and preference share holdings are categorised as "Available For Sale" (AFS) and are to be fair valued at subsequent reporting dates with any movement in the fair value, not deemed to be an impairment, or dividend income, going to the reserves. Any impairment in carrying value or dividend income is recorded in the OCS. This is a departure from the Financial Reporting Manual (FReM) as detailed in note 1: Statement of Accounting Policies.

On the 8 and 11 June 2009, HM Treasury redeemed its preference shareholdings.

The preference shares earned a dividend of 12 per cent up until the redemption date.

The cost of capital charge is £60.2 million (being 3.5per cent on the average value in the balance sheet, see note 1.9).

33 Heritable additional information

33.1 Background

Heritable bank plc (Heritable), which is a UK subsidiary of Landsbanki Islands hf (an Icelandic bank), is regulated by the Financial Services Authority (FSA). On 7 October 2008, the FSA determined that Heritable no longer met its threshold conditions, and was likely to be unable to continue to meet its obligations to depositors. The FSA concluded that Heritable was in default for the purposes of the Financial Services Compensation Scheme (FSCS). For more information on the FSA, please refer to their website www.fsa.gov.uk

By orders made under the Banking (Special Provisions) Act 2008, the retail deposit liabilities of £0.545 billion, were transferred from Heritable to Deposits Management (Heritable) Limited (DMH), a subsidiary of HM Treasury, and then subsequently transferred to ING Direct NV (ING Direct) on 8 October 2008 for £1 million consideration. The £0.545 billion cash transferred with the business was raised by a (i) Bank of England loan to the FSCS of £0.5 billion to allow it to pay into DMH, to cover the retail deposits up to the £50,000 cap under the FSCS rules and (ii) £0.045 billion from HM Treasury in respect of the individual deposit balances in excess of £50,000. Recoveries of these amounts will be made by the FSCS from the administration of the remainder of Heritable's business and from levies on industry. The FSCS will account back to HM Treasury any recoveries made in respect of the £0.045 billion provided by HM Treasury, as set out above.

The Bank of England loan of £0.5 billion to FSCS (plus the accrued interest) was refinanced by a loan from HM Treasury to FSCS on 29 December 2008. On 29 December 2008, HM Treasury advanced to the FSCS £12.5 million under the loan to enable the FSCS to make a payout to retail depositors whose accounts were not transferred to ING Direct.

Pending the outcome of ongoing due diligence, the total retail deposits and the split between those which are covered by the FSCS (up to the £50,000 threshold) and those which are not covered by the FSCS (in excess of the £50,000 threshold) is still to be confirmed.

The professional fees incurred by HM Treasury relating to Heritable are included in the total financial stability costs in note 7.3.

33.2 HM Treasury's investment in DMH

HM Treasury's subsidiary DMH has net assets of £0 million as the £1 million (plus interest) consideration received from ING Direct is offset by a liability of £1 million (plus interest) to the administrator as required by the transfer order.

33.3 HM Treasury loan to FSCS

The interest receivable on HM Treasury's loan to the FSCS is twelve month LIBOR plus 30 bps. As at 31 March 2009 HM Treasury has recognised £3.9 million of interest from the FSCS on the loan. When HM Treasury refinanced the £500million Bank of England loan on 29 December 2008, £6.7 million of accrued interest due to the Bank of England was refinanced at the same time. The total accrued interest in this accounting period will be received from the FSCS in September 2009. The undrawn element of the loan facility also attracts a monthly commitment fee payable by the FSCS to HM Treasury.

On 31 March 2009, the total facility stood at £522 million of which £9.2 million remains undrawn.

The £0.045 billion statutory debt provided by HM Treasury for the retail depositors' balances in excess of £50,000 is not accruing any interest. This is recoverable from the administration process for Heritable (see above).

The cost of capital charge relating to statutory debt is £7.4 million (being 3.5 per cent on the average value in the balance sheet, (see note 1.9)).

34. Kaupthing Singer & Friedlander additional information

34.1 Background

Kaupthing Singer & Friedlander (KSF) which is a UK subsidiary of Kaupthing hf (an Icelandic bank), is regulated by the Financial Services Authority (FSA). On 8 October 2008, the FSA determined that KSF no longer met its threshold conditions, and was likely to be unable to continue to meet its obligations to depositors. The FSA concluded that KSF was in default for the purposes of the Financial Services Compensation Scheme (FSCS). For more information on the FSA, please refer to their website www.fsa.gov.uk

By orders made under the Banking (Special Provisions) Act 2008, the (Edge) retail deposit liabilities of approximately £3.05 billion, were transferred from KSF to Deposits Management (Edge) Limited (DME), a subsidiary of the Bank of England, and then subsequently transferred to ING Direct NV (ING Direct) on 8 October 2008 for £5 million consideration. The £3.05 billion cash transferred with the business was raised by (i) a Bank of England loan to FSCS of £2.5 billion to allow it to pay into DME, to cover the retail 'Edge' deposits up to the £50,000 cap under the compensation scheme rules and (ii) £0.55 billion from HM Treasury in respect of the individual deposit balances in excess of £50,000. Recoveries of these amounts will be made by the FSCS from the administration of the remainder of KSF's business and from levies on industry. The FSCS will account back to HM Treasury any recoveries made in respect of the £0.55 billion provided by HM Treasury, as set out above.

The £5 million consideration received by DME is payable to HM Treasury. The Bank of England 2008-09 Accounts contains more details on DME.

The Bank of England loan of £2.5 billion to FSCS (plus the accrued interest) was refinanced by a loan from HM Treasury to FSCS on 29 December 2008.

Eligible retail deposits in KSF non-'Edge' products are being paid out directly by FSCS. A further loan facility of £0.5 billion has been made available by HM Treasury to FSCS for these payments.

On 30 March 2009, ING Direct made a payment to HM Treasury and FSCS totalling £0.33 billion. This was as a result of a revision to the estimated size of aggregate retail deposits transferred to ING Direct on 8 October 2008. Of this amount, £0.27 billion was considered a payment to FSCS which was used to reduce the FSCS's outstanding loan to HM Treasury and £0.06 billion was considered to be a repayment of HM Treasury's top up compensation (for retail balances greater than £50,000).

Pending the outcome of ongoing due diligence, the total retail deposits and the split between those which are covered by the FSCS (up to the £50,000 threshold) and those which are not covered by the FSCS (in excess of the £50,000 threshold) is still to be confirmed.

The professional fees incurred by HM Treasury relating to KSF are included in the total financial stability costs in note 7.3.

34.2 HM Treasury loan to FSCS

The interest receivable on HM Treasury's loan to the FSCS is twelve month LIBOR plus 30bps. As at 31 March 2009 HM Treasury has recognised £19.7 million of interest from the FSCS on the loan. When HM Treasury refinanced the £2.5 billion Bank of England loan on 29 December 2008, £32.9 million of accrued interest due to the Bank of England was refinanced at the same time. The total accrued interest in this accounting period will be received from the FSCS in September 2009. The undrawn element of the loan facility attracts a monthly commitment fee payable by the FSCS to HM Treasury.

On 31 March 2009, the total facility stood at £3.1 billion of which £0.3 billion remains undrawn.

The £0.55 billion statutory debt provided by HM Treasury for the retail depositors' balances in excess of £50,000 is not accruing any interest. This is recoverable from the administration process for KSF (see above).

The cost of capital charge is £37.5 million (being 3.5 per cent on the average value in the balance sheet, see note 1.9).

35. London Scottish Bank additional information

35.1 Background

On 30 November 2008, the High Court made an Administration Order in relation to London Scottish Bank Plc (LSB) and administrators were appointed. The application for an Administration Order was made by the directors of the Bank under the provisions of paragraph 12 of Schedule B1 to the Insolvency Act 1986.

On 1 December 2008 the Chancellor of the Exchequer announced that HM Treasury had made arrangements to safeguard all eligible retail depositors to ensure that depositors who are eligible to claim under the Financial Services Compensation Scheme (FSCS) would receive their money in full, including those with balances above the current £50,000 FSCS limit. This involved providing a loan facility of £250 million to the FSCS to enable it to payout to depositors as amounts fall due. As at 31 March 2009, HM Treasury had advanced £100 million under this facility. HM Treasury will meet payments above the £50,000 threshold for eligible depositors. The FSCS and HM Treasury expect to make recoveries from the administration of the remainder of LSB's business and from levies on industry.

LSB, unlike NR and B&B, was not nationalised but went into administration and therefore a Compensation Order was not required.

The professional fees incurred by HM Treasury and specifically related to LSB are included in total financial stability costs in note 7.3.

The cost of capital charge relating to statutory debt is £0.07 million (being 3.5 per cent on the average value in the balance sheet, see note 1.9).

The undrawn element of the loan facility attracts a monthly commitment fee payable by the FSCS to HM Treasury.

Interest earned on the drawn facility was £0.4 million to 31 March 2009.

On 31 March 2009 the total facility stood at £250 million of which £150 million remains undrawn.

After the balance sheet date, the due diligence performed by FSCS confirmed that £100 million advanced by HM Treasury is split between £88.5 million deposits covered by the FSCS and £11.5 million is to cover deposit balances not covered by the FSCS (above £50,000). The revised undrawn balance of the facility is £161.5 million. This has been reflected in the Resource Accounts for 2008-09.

36 Icesave additional information

36.1 Background

The UK branch of Landsbanki Islands hf (an Icelandic bank), which provided Icesave internet accounts, was subject to Financial Services Authority (FSA) supervision, but, as required under European law, was regulated by the financial services regulator in Iceland for the most part of its activities.

Depositors in European Economic Area (EEA) banks are protected under the EU Deposit Guarantee Scheme Directive. Iceland operates a guarantee scheme – the Icelandic Depositors and Investors Guarantee Fund (DIGF) - which satisfies the directive requirements, providing protection up to €20,887 (approx £16,500). Depositors with the UK branch of Landsbanki were further protected through the topping up provisions in the Directive as Landsbanki had opted into the Financial Services Compensation Scheme (FSCS), meaning that if depositors are owed more than £16,500 they can make a claim for deposits up to £50,000.

On 8 October 2008 the FSA concluded that the UK branch of Landsbanki was in default for the purposes of the FSCS. To ensure financial stability, the Chancellor announced that the Government would ensure that retail depositors with Icesave accounts would be compensated in full. Deposits up to the FSCS depositor compensation limit of £50,000 were paid by the FSCS using a £3.1 billion loan out of an available facility of £4 billion from the Bank of England. A further £0.8 billion was advanced by HM Treasury to cover individual deposit balances in excess of £50,000.

The Bank of England loan of £3.1 billion to the FSCS (plus the accrued interest) was refinanced by a loan from HM Treasury on 29 January 2009. In total, HM Treasury has paid £3.9 billion in loans and top-up payments. The latest estimates shows that of this amount, £2.3 billion (plus costs and interest) falls to the Icelandic authorities for payouts up to €20,887; £1.1 billion falls to the FSCS for compensation for amounts above €20,887 and below £50,000; and £0.5 billion represents compensation by HMT for amounts above £50,000.

We expect that recoveries of these amounts will be made by the FSCS and HM Treasury from the winding up of Landsbanki, as the FSCS and HM Treasury are now creditors. HM Treasury has also reached agreement with the Icelandic Authorities on a process to ensure the UK is refunded for the compensation the UK Government provided on behalf of the DIGF to Icesave retail depositors with the UK branch of Landsbanki. This will be achieved by recognising the payment by the UK Government as a £2.3 billion HM Treasury loan to the DIGF.

Pending the outcome of ongoing due diligence, the total retail deposits and the split between those which are covered by the FSCS (up to the £50,000 threshold) and those which are not covered by the FSCS (in excess of the £50,000 threshold) is still to be confirmed.

The professional fees incurred by HM Treasury relating to Icesave are included in the total financial stability costs in note 7.3.

36.2 HM Treasury loan to the FSCS

The interest receivable on HM Treasury's loan to the FSCS is one-year LIBOR plus 30bps. As at 31 March 2009 HM Treasury has recognised £15.6 million of interest from the FSCS on the loan. When HM Treasury refinanced the £3.1 billion Bank of England loan on 29 January 2009, £17.4 million of accrued interest was refinanced at the same time. The total accrued interest in this accounting period will be received from the FSCS in September 2009. A proportion of this interest relates to payouts for the liability that falls to the DIGF and therefore the FSCS will only pay this proportion when it receives repayment from the DIGF. The undrawn element of the loan facility attracts a quarterly commitment fee payable by the FSCS and DIGF to HM Treasury.

On 31 March 2009, the total facility stood at £4.1 billion of which £0.8 billion remains undrawn.

The £0.5 billion statutory debt provided by HM Treasury for the retail depositors' balances in excess of £50,000 is not accruing any interest. This is recoverable from the winding up of Landsbanki, the parent company of the UK branch.

The total cost of capital charge relating to statutory debt is £9.9 million (being 3.5 per cent on the average value in the balance sheet, see note 1.9).

37. Dunfermline Building Society additional information

37.1 Background

On 28 March 2009, following the required consultation with HM Treasury and the Bank of England, the Financial Services Authority (FSA) became satisfied that the general conditions for entry into the Banking Act 2009 Special Resolution Regime had been met in the case of Dunfermline Building Society (Dunfermline).

During the weekend of 28 and 29 March 2009 under the Special Resolution Regime (SRR) provisions of the Banking Act 2009, a competitive sale process was conducted by the Bank of England. Following the sale process, on 30 March 2009, Dunfermline's retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans, including loans to Registered Social Landlords, and related deposits) were transferred to Nationwide Building Society (Nationwide), by way of the Dunfermline Building Society Property Transfer Instrument. HM Treasury paid Nationwide the sum of £1.55 billion to facilitate the transfer, which included a payment of £68.5 million to Nationwide to take on the business. The £1.55 billion was drawn by HM Treasury from the Consolidated Fund under the Consolidated Fund Standing Service in line with the Banking Act 2009 (See note 20).

The social housing loans (and related deposits) were transferred to DBS Bridge Bank Ltd (bridge bank), which is owned and controlled by the Bank of England. This measure enabled the Bank of England to support Dunfermline's social housing portfolio whilst providing the opportunity to identify a longer term solution for this part of Dunfermline's business. On 1 July 2009 the Bank of England completed the sale and transfer of the social housing loans (and related deposits) to Nationwide. This followed the selection of Nationwide as a preferred bidder on 17 June 2009, following a process consistent with achieving the Special Resolution Objectives.

On application of the Bank of England to the court on 30 March 2009, the business which was not transferred to either Nationwide or to the bridge bank was placed into the Building Society Special Administration (BSSA) and KPMG was appointed as the administrator. The business included commercial loans, acquired residential mortgages, subordinated debt and most treasury assets. In making these decisions, the Bank of England acted under the powers conferred on it by the Banking Act 2009 and in accordance with the Code of Practice issued by HM Treasury. This decision followed consultation with the FSA and HM Treasury and an evaluation of the possible resolution options against the SRR objectives set out in the Banking Act.

By way of provision in the Transfer Instrument, HM Treasury has taken the place in the special administration of certain classes of creditors which were transferred to Nationwide and assumes rights to the proceeds of the wind-down and realisation of the assets of the Dunfermline administration estate. The Financial Services Compensation Scheme (FSCS) may also be required to contribute to the costs incurred in connection with the resolution under sections 214B of the Financial Services and Markets Act 2000.

It was agreed as part of the transaction that HM Treasury would undertake due diligence to verify and re-examine the balance sheet line items after the transaction to define their precise amounts. If any difference was identified as a result of this due diligence, both parties have agreed to make adjusting payments. This procedure is in place to protect the taxpayer by ensuring excessive funds are not transferred to a bidder as part of a resolution.

The professional fees incurred by HM Treasury and specifically related to Dunfermline are included in total financial stability costs in note 7.3.

On 6 July 2009 Parliament approved the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, setting out the various compensation arrangements that will be put in place in respect of the transfers to Nationwide and to the bridge bank. These arrangements included the appointment of an independent valuer to make various assessments.

The cost of capital charge is £0.3 million (cost of capital is charged at a rate of 3.5per cent on the value in the balance sheet, see note 1.9).

38. Financial stability schemes and interventions

38.1 Credit Guarantee Scheme

38.1.1 Background

On 8 October 2008 the Government announced a Credit Guarantee Scheme (CGS).

The CGS commenced on 13 October 2008. The purpose of the Scheme is to help restore confidence by making available, to eligible institutions, a government guarantee of senior unsecured short and medium term debt for a fee. In total, the Government estimates participating institutions will issue in the order of £250 billion of guaranteed debt.

38.1.2 Access to CGS

UK incorporated banks (including UK subsidiaries of foreign institutions) that have a substantial business in the UK and UK building societies are eligible to participate in the CGS.

To qualify for the CGS, an institution must be an eligible institution and have raised, or committed to raise within the required timeframe, Tier 1 capital in the amount and in the form the Government considers appropriate, whether by Government subscription or from other sources. The rules of the scheme and a list of current eligible institutions is available on the Debt Management Office website www.dmo.gov.uk.

38.1.3 The Guarantee

HM Treasury will provide the guarantee in relation to eligible instruments by the relevant institution. It is unconditional, irrevocable and ensures timely payment. The Deed of Guarantee is available to be viewed at www.dmo.gov.uk.

38.1.4 Further Announcements

The Chancellor announced a number of changes to the scheme on 15 December 2008. These changes were designed to enhance the effectiveness of the Scheme. State Aid approval for these changes was granted on 23 December 2008. A brief description of the changes is set out below:

38.1.4.1 Fee

The formula that determines the fee payable to HM Treasury on guaranteed liabilities was adjusted so that it is based on a per annum rate of 50 basis points plus 100 per cent of the institutions' median five-year Credit Default Swap (CDS) spread during July 2007-July 2008 as determined by HM Treasury. This fee applies to all guaranteed issues under CGS since its launch on 13 October 2008. These fees are to be paid in the currency of the debt issued.

Total fee income recognised in the 2008-09 Resource Accounts is £498.9 million, which has been accounted for as Consolidated Fund Extra Receipts and are surrenderable to the Consolidated Fund.

38.1.4.2 Term of the CGS

The length of the Scheme was extended from three years to five, and will now end in April 2014.

38.1.4.3 Currency of instruments

Senior unsecured debt instruments can now be issued in Yen, Australian dollars, Canadian dollars and Swiss francs in addition to sterling, US dollars and Euros.

38.1.5 Additional Measures

As part of the Government's additional measures to encourage lending by financial institutions (announced on 19 January 2009), the Government announced its intention to extend the drawdown window of the CGS beyond 9 April 2009. Following approval from the European Commission the drawdown window has been extended to 13 October 2009 and is to be extended further to 31 December 2009 subject to further approval from the Commission. Eligible banks and building societies are able to issue new guaranteed debt until the drawdown window closes. After that banks and building societies may continue rolling over any outstanding guaranteed debt (all of it until April 2012 and up to one-third of the total, a maximum of £83.3bn for all institutions combined, until April 2014). All other aspects of the CGS remained the same, including the final maturity date of April 2014.

For details on how the CGS has been accounted for, see note 1.21 - Financial Guarantees.

38.2 BoE Asset Purchase Facility

38.2.1 Background

On 19 January 2009, the Government authorised the Bank of England to create a new fund, the Asset Purchase Facility (APF). The objective of the facility is to increase the availability of corporate credit, in order to support the Bank of England’s responsibilities for financial stability and monetary stability in the UK. Asset transactions by the Bank of England could increase liquidity and trading activity in some UK financial markets and could stimulate issuance by corporate borrowers and the resumption of capital market flows. Initially, the facility was financed by the issue of Treasury bills. On 3 March 2009, the Chancellor of the Exchequer (the Chancellor) agreed to a request from the Monetary Policy Committee (MPC) of the Bank of England that purchases could be financed through the provision of central bank money. He also authorised the APF to purchase UK Government debt on the secondary market. This means that the MPC can use the APF for monetary policy purposes.

38.2.2 Purpose of the Asset Purchase Facility

As stated above, on 19 January 2009, the Bank of England was authorised by HM Treasury to purchase high quality private sector assets, initially up to £50 billion, funded by the issuance of Treasury bills by the Debt Management Office (the DMO). The Bank of England and the subsidiary set up to undertake the purchases are indemnified by HM Treasury for any losses arising out of or in connection with the facility. Asset purchases by the Bank of England, through the APF, could increase liquidity and trading activity in some UK financial markets and could stimulate issuance by corporate borrowers and the resumption of capital market flows.

The details of the APF were outlined in a published exchange of letters between the Chancellor and the Governor of the Bank of England (the Governor) on 29 January 2009 which established the APF and the framework for asset purchases.

The Bank of England sets monetary policy to ensure that it meets its inflation target of 2 per cent on the CPI measure of inflation. Normally it does so by varying the rate it pays on reserves held by banks at the Bank of England Bank Rate. When the financial system is functioning well, changes in Bank Rate are passed through the financial system, influencing interest rates faced by households and companies.

On 17 February 2009, the Governor wrote to the Chancellor requesting that the APF be used for monetary policy purposes. On 3 March 2009, the Chancellor authorised the use of the APF to finance purchases under the facility using central bank money. He also authorised the use of the APF to purchase UK Government debt on the secondary market. He also authorised an increase in the scale of the purchases of assets of up to £150 billion of which up to £50 billion should be used to purchase private sector assets. In his letter, the Chancellor highlighted that the objectives of the monetary policy framework remained unchanged: the MPC should continue to maintain price stability and, subject to that, to support the Government's economic policy, in particular, its objectives for growth and employment.

Using the APF, the MPC is able to set monetary policy by financing the purchase of assets by the provision of central bank money in addition to setting the level of Bank Rate. That raises the money holdings of the private sector. As investors buy other assets with those money holdings, that lowers the yield of those assets and reduces the cost of finance. Over time, a lower cost of finance should encourage firms to raise capital to pursue profitable opportunities. In turn, this process should stimulate demand in the economy, ensuring that the inflation target can be met.

A new company, the Bank of England Asset Purchase Facility Fund Limited (BEAPFF), has been set up, through which asset purchases will be made. This is a wholly owned subsidiary of the Bank of England. The Bank of England will act as agent for BEAPFF.

At its meeting in March 2009, the MPC decided to initiate the purchase of £75 billion of assets using central bank reserves. At its meeting in May 2009, the MPC increased its purchase programme to by a further £50 billion to £125 billion.

38.2.3 Asset Eligibility

The following assets are eligible for purchase by the APF: UK Government gilts, paper issued under the Credit Guarantee Scheme (see note 38.1); corporate bonds; commercial paper; syndicated loans and asset backed securities created in viable securitisation structures. This list can be amended upon the Chancellor's approval.

The Bank of England should be satisfied that they only purchase high quality assets of investment grade for which there will be a viable private market demand when conditions in financial markets return to normal.

38.2.4 Term of the Asset Purchase Facility

The APF's purpose is to help the MPC meet the inflation target and to restore the flow of credit to corporate borrowers. Consequently, as the outlook for inflation improves and normal liquidity conditions return, the Bank of England is expected to wind down the fund, with the APF being completely withdrawn when it is no longer required. The Chancellor will authorise the APF's continued operation for the following year at each Budget.

38.2.5 Indemnity

The Bank of England and the subsidiary set up to undertake the purchases (BEAPFF) are indemnified by HM Treasury against any losses incurred under the APF. In return for providing this indemnity, HM Treasury receives any net profit generated by the scheme (see note 19.4).

38.3 The Financial Services Compensation Scheme

38.3.1 Background

The Financial Services Compensation Scheme (FSCS) is an independent body established under the Financial Services and Markets Act 2000 (FSMA) to protect the rights of consumers. It became operational on 1 December 2001 when the FSMA came into force.

38.3.2 The Scheme

The FSCS is a scheme which covers business conducted by firms authorised by the Financial Services Authority (FSA), the independent body set up by Government to regulate financial services in the UK. European financial institutions (authorised by their home state regulator) that operate in the UK may also be covered by the FSCS in certain circumstances.

The FSCS protects:

- Retail deposits,
- Life and general insurance firms' policies,
- General insurance policies advice and arranging (on or after 14 January 2005), including connected travel insurance where the policy is sold alongside a holiday or other related travel (e.g. by travel firms and holiday providers) (for business on or after 1 January 2009) insurance broking (for business on or after 14 January 2005),
- Investment business (on or after 28 August 1988), and
- Home finance (e.g. mortgage) advice and arranging (for business on or after 31 October 2004).

The FSCS deals with claims against authorised financial institutions (those regulated by the Financial Services Authority (FSA)) that are unable, or likely to be unable, to pay claims against them. This will generally be because a financial institution has stopped trading and has insufficient assets to meet claims, or is in insolvency. The FSCS can pay compensation only for the direct financial loss and not any consequential losses. For example, for investment claims the aim of FSCS compensation is generally to put you back in the position you would have been in had you not invested.

The eligibility of the claimants and the limits on how compensation can be paid are set in rules made by the FSA. Different rules and limits apply to different types of claim.

38.3.3 Funding

The FSCS is funded by levies on financial institutions authorised under the FSMA. Levies are also raised to meet all of the FSCS's costs including management expenses and compensation payments.

For further information on the FSCS, please visit their website www.fscs.org.uk.

38.3.4 Summary of Loans and Statutory Debts

In recognition of the material and unusual nature of the volume and value of the business undertaken by the FSCS, and the practicalities around sourcing liquidity and income from levies in the past year, in the short term, the FSCS has been funded by HM Treasury. Loan advances represent amounts funded up to the FSCS limit of £50,000 (£35,000 before 7 October 2008) and statutory debt represents amounts funded in excess of £50,000 (£35,000 before 7 October 2008).

The table below shows the loans and statutory debts made by HM Treasury to the FSCS up to 31 March 2009.

All loans are interest bearing except statutory debts.

The loan balances with FSCS are based on advances made during the year and are subject to adjustments once the final due diligence on the deposits paid out has been completed, with the exception of London Scottish Bank (LSB). Due diligence has been completed on LSB and actual loan amounts have been reflected below. Loan facilities are to be recovered from the FSCS, who in turn will recover these from the underlying institutions in the first instance, and levy industry for the remainder.

Please see the FSCS website for further information on FSCS: www.fscs.org.uk

	BB £000	KSF £000	Heritable £000	Icesave £000	LSB £000
Loan facility available	14,233,000	3,062,876	521,671	4,109,741	250,000
Drawndown^	14,000,000	3,030,000	512,500	3,352,531	88,485
Repayments	-	(269,316)	-	-	-
Facility remaining Undrawn	233,000	302,192	9,171	757,210	161,515
Bank of England accrued interest refinanced^	207,293	32,876	6,671	17,393	-
Statutory Debt (before impairment)	4,094,977	550,000	45,000	539,817	11,515
Repayment of Statutory Debt	-	(58,364)	-	-	-
Interest Earned	106,962	19,712	3,916	15,592	438

^ The sums of these numbers are disclosed as FSCS loans in note 13..

38.4 Asset Backed Securities Guarantee Scheme

38.4.1 Background

On 19 January 2009, the Government announced it would establish a new guarantee scheme for asset backed securities, to improve banks' access to wholesale funding markets, help support lending, and promote robust and sustainable markets over the longer-term. At Budget 2009 the Government announced that the Asset Backed Securities guarantee scheme is available for eligible banks and building societies, extending their funding options under the existing Credit Guarantee Scheme (CGS) to residential mortgage backed securities (RMBS).

No guarantees have been issued as at the date of the publication of these Accounts.

Full details of the scheme are published on the Debt Management Office (DMO) website www.dmo.gov.uk.

38.4.2 Access to the Asset Backed Securities guarantee scheme

The institutions eligible to participate in the scheme are the same institutions as are currently eligible to participate in the CGS. For the rules and a list of current eligible institutions please visit the Debt Management Office's (DMO) website at www.dmo.gov.uk which will be updated as appropriate.

38.4.3 The Guarantees

The Asset Backed Securities Guarantee will be provided by HM Treasury (as Guarantor) in relation to eligible instruments issued by an entity (an Issuer) sponsored by the relevant participating institution. The Deed of Guarantee is available to be viewed at www.dmo.gov.uk.

Two types of Guarantees will be provided.

38.4.3.1 Credit Guarantee

The first type (the Credit Guarantee) will be an unconditional and irrevocable guarantee of the timely payment of all amounts contractually due from the relevant Issuer in respect of the eligible instruments.

38.4.3.2 Liquidity Guarantee

The second type (the Liquidity Guarantee) will apply to (i) the failure of an Issuer to exercise a call right in respect of the eligible instruments in accordance with the terms of the relevant documentation; or (ii) the failure of an Issuer to purchase eligible instruments at the option of the holders of those eligible instruments in accordance with the terms of the relevant documentation. The participating institution will be required to undertake to the Issuer to put the Issuer in funds to meet the call or the purchase obligation, as the case may be, on the due date. In each case, the Guarantor will irrevocably undertake that, if the Issuer fails to pay the relevant price to the holder of such eligible instruments on the due date, the Guarantor will purchase such eligible instruments from the holder at the relevant price. The relevant price will be the principal amount outstanding of the eligible instruments as at the due date, adjusted to include any accrued but unpaid interest but reduced to take into account any losses which may have been incurred on the portfolio of mortgage loans backing the eligible instruments prior to the due date and which are allocable to the eligible instruments.

The obligations of the Guarantor under the Liquidity Guarantee will be conditional upon the holder of the eligible instruments transferring ownership of the eligible instruments to HM Treasury against payment under the Liquidity Guarantee.

38.4.4 Period during which Guarantees will be issued

The Government will issue Guarantees (of both types) in respect of eligible instruments issued during a 6-month period from the commencement of the scheme (22 April 2009), subject to any extension at the discretion of HM Treasury.

38.4.5 Term of applicable Guarantees

The Guarantee in respect of an eligible instrument will have a maximum term of either up to three years or up to five years. Up to one third of the Guarantees (Credit and Liquidity) (based on the total amount of guaranteed eligible instruments) may have up to the five year term.

38.4.6 Instruments eligible to be guaranteed

A Guarantee may be applied to instruments issued under stand-alone transactions or to instruments issued under established or newly established master trusts, in each case approved by HM Treasury at its sole discretion.

The eligible instruments must be single currency denominated in Sterling, Euro, US Dollars, Yen, Australian Dollars, Canadian Dollars or Swiss Francs or such other currency as may be approved by HM Treasury.

The eligible instruments must be able to be rated "AAA" (or the equivalent) at the time of issue by at least two international credit rating agencies, on the basis that the eligible instruments do not carry the applicable Guarantee.

The mortgage loans which are sold into the mortgage pool backing the eligible instruments must be of a high quality. Any mortgage loans which are sold into the relevant mortgage pool after the date the participating institution joins the ABS Scheme must meet additional specified criteria.

38.4.7 Fee

The fee payable to HM Treasury on guaranteed issues will be based on a per annum rate of 25 basis points plus 100 per cent of the participating institution's median 5-year Credit Default Swap (CDS) spread during the period from 2 July 2007 to 1 July 2008, as determined by HM Treasury.

HM Treasury may apply its own estimate of an appropriate CDS spread if public data is unavailable. The fee will be applied to the principal amount outstanding from time to time of the eligible instruments and will be payable on the interest payment dates of the eligible instruments until the earlier of the expiry of the applicable term of the Guarantee and the date the eligible instruments have been redeemed. In addition, HM Treasury may charge an incremental fee to any applicable Guarantee being applied to non-sterling denominated eligible instruments.

No fees have been earned as at the balance sheet date.

For further details on the ABS guarantee scheme, please visit the DMO website at www.dmo.gov.uk

38.5 BoE Special Liquidity Scheme

38.5.1 Background

On 21 April 2008 the Bank of England launched the Special Liquidity Scheme (SLS) to improve the liquidity position of the banking system by allowing banks and building societies (financial institutions) to swap, for up to three years, some of their illiquid assets for UK Treasury Bills. The drawdown period closed on 30 January 2009. The assets held by financial institutions that can be used in the SLS must be high quality – rated as AAA.

Although the drawdown window to access the SLS has closed, the Scheme will remain in place for three years, thereby providing participating institutions with continuing liquidity support and certainty. Only securities formed from loans existing before 31 December 2007 were eligible. As recompense for the administration and operational costs, HM Treasury has received a fee of £125,000. The DMO has received a fee of £250,000 from the Bank of England. These fees have been surrendered to the Consolidated Fund on receipt.

Details on this Bank of England Scheme can be found at www.bankofengland.co.uk

38.5.2 Indemnity

The Bank of England is indemnified by HM Treasury against any losses incurred under the SLS.

Assets taken into the scheme are high quality, revalued daily with margin calls as necessary and are subject to a conservative haircut. The Bank of England receives a fee for participation in the scheme. It is considered that the risk of any loss suffered by the Bank of England is very low. Accordingly, no provision is has been made in these accounts as no call is expected to be made under the indemnity.

38.5.3 Fees

The financial institutions will be required to pay a fee (to the Bank of England) to swap HM Treasury Bills. The fee charged is the spread between the 3-month London Interbank interest rate (Libor) and the 3-month interest rate for borrowing against the security of government bonds (GC Repo), subject to a floor of 20 basis points. The average spread over the drawdown period was around 115 basis points.

38.5.4 Utilisation of the SLS

Since its inception until the end of the drawdown period (30 January 2009), Treasury Bills with a face value of approximately £185 billion have been lent under the SLS. The SLS has been accessed by 32 financial institutions.

The total nominal value of the securities held by the Bank of England as collateral under the SLS as at end January amounted to £287 billion. For further information, please see the Bank of England's Annual Report 2009 on www.bankofengland.co.uk.

38.6 The Infrastructure Finance Unit

38.6.1 Background

The Private Finance Initiative (PFI) is an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in infrastructure assets, from the private sector on a long-term basis, typically for 25-30 years. The private sector contractor is paid a fee, often referred to as a unitary charge, for the service it provides to the public sector. This fee is at risk to the private sector contractor's performance during the life of the contract and may be reduced if performance falls below the required standard.

The private sector typically finances its investments in the underlying assets through a combination of equity and debt. In the majority of cases ownership returns to the public sector after a period of years.

Recent difficulties in the financial markets have reduced the availability and increased the pricing of long-term debt finance accessible for PFI projects seeking to reach financial close. The current absence of capital market funding and the reduced number of active bank lenders to the PFI market mean that a number of projects already active pre financial close, and a number of future projects, were at risk through lack of capital funding.

On 3 March 2009, the Chief Secretary to HM Treasury announced that the Government would lend to PFI projects to ensure vital PFI infrastructure projects go forward as planned despite the current financial market conditions, supporting jobs, economic activity and delivery of public services.

This action ensured that crucial and valuable public investment was not disrupted by problems in the financial markets. In total, £13 billion of public investment in procurement was safeguarded. This protection assured the future of a broad range of public infrastructure projects including £3.5 billion of waste treatment and environmental projects, £3.1 billion of transport projects and £2.4 billion of schools projects. It also avoided the significant delays, which would be incurred by switching these projects to alternative procurement approaches.

Loans are on commercial terms and Treasury receives fees, interest and capital payments. The Infrastructure Finance Unit (TIFU) has lent to one transaction thus so far (£120 million to the Greater Manchester Waste Disposal Authority PFI project) but the market outlook and future activity levels remain uncertain.

In order to provide the mix of expertise required, HM Treasury has established TIFU to consider applications for HM Treasury loans to PFI projects negotiate the terms of any such loans and monitor and manage loans once made. TIFU will operate at arm's length from procuring authorities and will be staffed by appropriate project finance professionals employed by HM Treasury. TIFU is establishing credit approval and loan monitoring processes comparable to those operated by commercial banks.

HM Treasury's intention is to supplement bank/capital market funding, where it is available on acceptable terms, not to replace it. HM Treasury expects the private sector, together with the EIB, to provide the majority of debt finance for PFI transactions, but it is able to provide 100 per cent of the senior debt finance required by a PFI project where necessary.

38.6.2 Circumstances in which HM Treasury will lend to PFI projects

HM Treasury will consider lending to PFI projects where insufficient private sector or EIB funding is available on acceptable terms to allow the project to reach financial close on a timely basis. In the current market this will generally only become apparent where a post-preferred bidder funding competition (or equivalent process) has been held and the quantity of committed funding available from the market is not sufficient fully to finance the project.

It is also possible that a project attracts sufficient offers of funding but that some or all of the proposed funding is on terms, or is subject to conditions, that the procuring authority and the project's sponsors believe are not representative of the then current financing market for PFI projects. In those circumstances the procuring authority (and any relevant Private Finance Unit) will be required to demonstrate to HM Treasury's satisfaction that the relevant terms offered to the project are not representative of the terms generally available for PFI transactions in the sector concerned.

38.6.3 Eligibility

All PFI projects that have, by 3 March 2009, issued a notice in the Official Journal of the European Union (OJEU) or an equivalent procurement commencement document will be eligible for HM Treasury loans. PFI projects approved by the Project Review Group that issue an OJEU notice after 3 March 2009 will also be eligible.

Other PFI projects will be eligible provided they meet the usual value for money and affordability criteria and subject to obtaining HM Treasury approval before issuing their OJEU notice. HM Treasury approval for such projects should therefore be sought, from HM Treasury's Corporate and Private Finance team, in advance of OJEU.

38.6.4 Exit

Treasury lending is on commercial terms and is intended to be temporary and reversible. It is therefore expected to cease when market lending capacity is adequate to meet PFI demand, and HM Treasury's loans will be sold to the private sector in due course.

38.6.5 Post Balance Sheet Events

HM Treasury signed its first transaction on 8 April 2009, to provide £120 million of senior debt facilities to the Greater Manchester Waste Disposal Authority PFI project.

38.7 Asset Protection Scheme

38.7.1 Background

On 19 January 2009 the Government announced its intention to offer an Asset Protection Scheme (APS) to restore confidence in the banks and get credit flowing again, by dealing with the losses associated with impaired assets.

Under the APS, in return for a fee, HM Treasury will provide to each participating institution protection against a proportion of future credit losses on one or more portfolios of defined assets to the extent that credit losses exceed a "first loss" amount to be borne by the institution. It is intended that the APS will target those asset classes most affected by current economic conditions.

The Government protection will cover 90 per cent of the credit losses exceeding the amount of the first loss, with the participating institution retaining the residual 10 per cent exposure. The APS has been designed to draw a line under problems arising from impaired assets, by putting a floor to banks' exposure to losses associated with these assets. This should enable the healthier core of banks' commercial business to attract investments and deposits and make loans to creditworthy businesses and households.

On 26 February 2009, Royal Bank of Scotland (RBS) announced its intention to participate in the APS. RBS intends to protect £325 billion of eligible assets. Please see note 31 for further information on RBS.

On 7 March 2009, Lloyds Banking Group (LBG) announced its intention to participate in the APS. LBG intends to protect £260 billion of eligible assets. Please see note 32 for further information on LBG.

If, and only if, the APS goes ahead, RBS has agreed not to claim certain UK tax losses or allowances.

38.7.2 Application period

Eligible institutions were entitled, until (and including) 31 March 2009 to request to participate in the APS. No further eligible institutions requested to participate in the APS.

38.7.3 Eligible Institutions

Protection under the APS was offered, in the first instance, to UK incorporated authorised deposit-takers (including UK subsidiaries of foreign institutions) with more than £25 billion of eligible assets. Affiliated entities of those deposit-takers were also considered by HM Treasury as being eligible for protection under the APS.

38.7.4 Duration of the APS

The duration of the coverage will be not less than five years and will be consistent with the tenor of the assets.

38.7.5 Fees

The fee payable for the APS can be paid in cash but will usually be satisfied by the issue of capital instruments by the institution. Specifically the fee may be funded through the issuance of a capital instrument to HM Treasury.

In the case of RBS, the fee is expected to take the form of £6.5 billion of non-voting B shares. In the case of LBG, the fee is expected to take the form of £15.6 billion of non-voting B shares.

38.7.6 Current Position

Implementation of the APS is subject to further due diligence by HM Treasury and its advisers, execution of legally binding documentation, satisfaction of the application criteria and asset eligibility criteria of the APS, and satisfaction of applicable conditions precedent to the accession of the APS, including regulatory, State Aid and shareholder approvals.

For further information on APS, please visit HM Treasury's website on www.hm-treasury.gov.uk

39. 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.

39.1 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, HM Treasury Solicitors and the National Loans Fund.

Although the Bank of England (see note 13.1), the Royal Mint (see note 13.2), Northern Rock (see note 13.5), Bradford & Bingley (see note 13.6), Partnerships UK (see note 13.3), UKFI (see note 13.8),Royal Bank of Scotland (see note 13.9) and Lloyds Banking Group (see note 13.10) fall outside the resource accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Payments to these bodies for services provided and the dividend payments and other income received are material and in the operating cost statement.

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

Prior to becoming a non-executive member of HM Treasury Board on 1 October 2008, Sir Callum McCarthy was chairman of the FSA and a member of the Court of the Bank of England.

39.2 OGC

The OGC is an office of HM Treasury and sponsors Buying Solutions (note 13.4), which is a trading fund. These bodies are regarded as related parties with which OGC has had various material transactions during the year.

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

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

39.3 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.

39.4 Senior Decision Makers

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

Tom Scholar became a non-executive board member of Northern Rock on 22 February 2008, for which he receives no remuneration. In that capacity he also serves on Northern Rock's Audit and Risk committees. He is also a director of Deposits Management Heritable Limited.

Louise Tulett became a non-executive board member of UK Financial Investments Limited on 2 March 2009, for which she receives no remuneration. In that capacity she also chairs UK Financial Investments Limited's Audit Committee.

Ministers and senior management of the HM Treasury Group have confirmed to the Permanent Secretary that they do not have any transactions with related parties which are not in the ordinary course of business, or which are at preferential rates.

40. Third Party Assets

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

41. Entities within the Departmental boundary

The entities within the boundary during 2008-09 were as follows:

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

42. Post balance sheet events

Reportable non-adjusting post balance sheet events include:

42.1 Barlow Clowes

The Barlow Clowes group of companies collapsed in 1988, and HM Treasury subsequently paid ex-gratia payments 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. 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.

The Officeholders are not seeking recovery from Director B as he is believed to have no quantifiable assets. However, the Officeholders have taken steps to enforce the judgment against Director A and on 14 May 2008 reached a settlement, when a first instalment of £2 million was paid to them. Further payment of £2 million was received on 28 May 2009.

HM Treasury continues to indemnify the liquidators and receivers (the Officeholders) of Barlow Clowes for any costs above the amounts recovered from ongoing legal action.

42.2 Royal Mint

On 21 April 2009, as part of the Operational Efficiency Programme Review, the Chancellor of the Exchequer announced that the Royal Mint vesting process would be resumed. As such, a new Service Level Agreement between HM Treasury and the Royal Mint has been agreed and is effective from 1 April 2009.

42.3 The Infrastructure Finance Unit

HM Treasury committed to its first transaction on 8 April 2009, to provide £120 million of senior debt facilities to the Greater Manchester Waste Disposal Authority PFI project.

42.4 Recapitalisation

42.4.1 RBS

On 19 January 2009 the Government announced its agreement with RBS to convert HM Treasury's £5 billion preference share investment into new ordinary shares.

In order to fund the redemption of HM Treasury's preference share holding, RBS conducted an open offer of approximately £5 billion ordinary shares to all existing shareholders. The issue of the new ordinary shares and redemption of the preference shares was approved by shareholders at RBS's Extraordinary General Meeting on 3 April 2009.

In line with the terms of the conversion HM Treasury underwrote the open offer and subscribed to those shares not taken up by existing shareholders. The subscription price due from HM Treasury for these shares was then offset against RBS's obligation to pay the redemption price in respect of the preference shares (together with the accrued coupon and the underwriting fees) to HM Treasury.

The results of the open offer were announced on 07 April 2009, allowing the redemption to take place on 15 April 2009. HM Treasury now holds 70.33 per cent of the total ordinary share capital of RBS. The proceeds from share redemption were £23.8 million.

42.4.2 LBG

On 7 March 2009 the Government announced its agreement with LBG to convert HM Treasury's £4 billion preference share investment into new ordinary shares. This restructuring received shareholder approval on 5 June 2009. Existing shareholders had the opportunity to subscribe for new ordinary shares at a price of 38.43 pence per ordinary share (a discount of 8.5 per cent to the closing price on 6 March 2009). Shares not taken up by existing shareholders were placed in the market. HMT subscribed to its pro-rata entitlement under the open offer. This means its voting ownership is unchanged at 43.4 per cent. The proceeds from share redemption were £2.5 billion.

42.5 Icesave DIGF announcement

HM Treasury reached an agreement on 5 June 2009 with the Icelandic Authorities on a process to ensure that the UK Government is refunded for the compensation it provided on behalf of the DIGF to Icesave retail depositors. The payment made by the UK Government will be recognised as a HM Treasury £2.35 billion loan to the DIGF. The terms of the loan includes an initial 7-year grace period during which interest will be capitalised and the loan will have no principal repayment obligations other than to pass through all recoveries made by the DIGF in the winding up of Landsbanki. Principal and accrued interest will be payable quarterly thereafter over a period of eight years. During this period the loan will be guaranteed by Iceland. The agreement will not come into force until the guarantee given by Iceland has been authorised by the Icelandic Parliament.

42.6 BoE Asset Purchase Facility

As at 26 June 2009, the Bank of England had purchased £96.3 billion of gilts, £2billion (net) of commercial paper and £803 million of corporate bonds. Information on specific transactions and operations is made available, where appropriate, through the Bank's regular market announcements and information on the scale of operations is also provided through the Bank's statistical publications.

At its meeting in May 2009, the MPC decided to increase the level of purchases to £125 billion of assets using central bank reserves. The MPC voted to continue with its programme of asset purchases totalling £125 billion at its meeting in July.

The Bank of England publishes a report, on a quarterly basis, on the transactions conducted by the Asset Purchase Facility.

42.7 Due Diligence on the FSCS loans

FSCS are required by law to calculate the precise split between payouts made up to the FSCS retail deposit limit and above that limit made under the B&B, Heritable and KSF agreements. This work is continuing at the time of publication of these Accounts and the numbers we have recorded in the HM Treasury accounts are subject to change when HM Treasury and the FSCS finalise the due diligence work.

42.8 Bradford & Bingley

On 24 June 2009, HM Treasury Ministers, on the recommendation of an independent panel appointed Peter Clokey, as independent valuer under the terms of the Bradford & Bingley Plc Compensation Scheme Order 2008 (OPSI website).

42.9 Dunfermline

On 1 July 2009 the Bank of England has completed the sale and transfer of the social housing loans (and related deposits from housing associations) held by its wholly owned subsidiary, DBS Bridge Bank Limited, to Nationwide Building Society and other loans remaining in Dunfermline that form part of the social housing book.

On 6 July 2009 Parliament approved the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, setting out the various compensation arrangements that will be put in place in respect of the transfers to Nationwide and to the bridge bank.

43 Date authorised for issue

The financial statements were authorised for issue on 17 July 2009.

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID6189914 07/09

Printed on Paper containing 75% recycled fibre content minimum.

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ISBN 978-0-10-296168-3

9 780102 961683