HM TREASURY

Cm 6540

DEPARTMENTAL REPORT

June 2005

This is part of a series of departmental reports (Cm 6521 to Cm 6548) which, along with the Main Estimates, the document Public Expenditure: Statistical Analyses 2005, and the Supply Estimates 2005-06: Supplementary Budgetary Information, present the Government's expenditure plans for 2005-2008.

The complete series of Departmental Reports and Public Expenditure Statistical Analyses 2005 is also available as a set at a discounted price.

HM TREASURY

Departmental Report 2005

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

June 2005

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Foreword

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

The Government's objective is to build a strong economy and a fair society, where there is opportunity and security for all. We continue to make significant progress towards our long-term economic goals:

- **Maintain economic stability** - many industrialised countries have suffered through the recent period of global uncertainty - however, the UK economy has grown continuously over this same period, experiencing the longest unbroken economic expansion on record with GDP now having grown for 51 consecutive quarters and the UK is well placed to make the most of the opportunities afforded by the rapidly evolving global economy;

- **Increase employment opportunities for all** - real advances in skills and training, a tax and benefit system that ensures that work pays and the opportunities provided by the New Deal have seen over 2 million more people in work since 1997;

- **Creating a fairer society** - a fair society guarantees both security in old age and the best start in life for our children. Reforms to state pensions and other measures introduced since 1997 have helped tackle pensioner poverty - including the announcement in Budget 2005 of an additional £200 payment for those council tax paying households with someone aged 65 or over to help with council tax bills. While improvements in support for families has helped tackle child poverty, including over 337,000 families receiving help with their child care costs through Working Tax Credits;

- **Investing to build world-class public services** - since 1997, schools have 32,500 more teachers, and there are more and better learning choices post-16 with record numbers of young people engaged in government-supported apprenticeships schemes. In healthcare, in January 2005 almost all (99.9 per cent) of patients were being offered an appointment with a GP within 2 working days, and with a primary care professional within 1 working day.

The UK has also made significant progress towards our objective of providing the additional finance needed to meet the Millennium Development Goals by 2015 - including commitments to halve poverty, get every child into school and reduce the number of children who die before their fifth birthday by: securing G8 agreement to finance 100 per cent cancellation of the debts owed to multilateral institutions by up to 38 Heavily Indebted Poor Countries and securing EU agreement to double aid by 2010 and meet the long-standing commitment to spend 0.7 per cent of national income on aid by 2015. We will continue to press for the creation of the International Finance Facility to frontload aid commitments so that they can have the greatest impact on poverty before 2015, and to work within the G8 to agree further increases in resources.

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

Gordon Brown

Executive Summary

AIMS AND OBJECTIVES

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

In order to achieve this aim, the Treasury has ten objectives[1]. These are listed below and can be broadly categorised under four main headings:

Maintaining Stability at Home and Overseas

Objective I: Maintaining a stable macroeconomic framework with low inflation.

Objective II: Maintaining sound public finances in accordance with the Code for Fiscal Stability.

Objective III: Promoting UK economic prospects by pursuing increased productivity and efficiency in the European Union, international financial stability and increased global prosperity, including especially protecting the most vulnerable.

Raising Trend Growth

Objective IV: Increasing the productivity of the economy.

Objective V: Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest.

Promoting Fairness and Opportunity for All

Objective VI: Expanding economic and employment opportunities for all.

Objective VII: Promoting a fair and efficient tax and benefit system with incentives to work, save and invest.

Objective X[2]: To protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies.

Delivering High Quality Public Services

Objective VIII: Improving the quality and cost effectiveness of public services.

Objective IX: Achieving a high standard of regularity, propriety and accountability in public finances.

[1]These objectives were set through the 2002 Spending Review. A new set of objectives was set through the 2004 Spending Review, the first report against which will be in the 2005 Autumn Performance Report.
[2]Objectives are not shown here in numerical order, but grouped by theme

ACHIEVEMENTS IN 2004-05

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

Maintaining Stability at Home and Overseas

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

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle, ensuring the Government is meeting the Golden Rule. Public sector net debt has been below 40 per cent of GDP in every year of the current economic cycle, meeting the sustainable investment rule; and

- the Treasury has continued to make progress on our international goals for the G7 and EU presidencies in 2005, through agreement of 100 per cent multilateral debt cancellation and EU Finance Ministers agreement to double EU aid by 2010, and in Europe, the Treasury has made progress on structural reform and the Lisbon Goals.

Raising Trend Growth

- UK productivity continues to improve – the gap is narrowing with France, has closed with Germany, and the UK is now leading Japan by around 8-10 percentage points. However, a sizeable gap remains with the US[3]. The new set of indicators on the drivers of productivity, published in October 2004[4], will further help to monitor progress;

- work to continue to reduce the regulatory burden on business – including Phillip Hampton's review of regulatory enforcement to promote more efficient inspection and enforcement activity, the Better Regulation Task Force's report on reducing the administrative burden of regulation, and the publication in May 2004 of a new, less regulatory strategy to influence the debate on financial services in Europe;

- the introduction of the 10-year Science and Innovation Investment Framework, which provides a platform for future productivity growth and public service delivery through innovation in the UK;

- the announcement in December 2004, of the outcome of the two-year review of the Financial Services Markets Act 2000 (FSMA) including the introduction of a comprehensive package of deregulatory reforms in spring 2005; and

- the publicatiion of a strategy on promoting financial inclusion in December 2004 - setting out the next steps for improving access to banking, affordable credit, and free face-to-face money advice.

Promoting Fairness and Opportunity for All

- the publication, alongside the 2004 Spending Review, of the Child Poverty Review which examined the welfare reform and public service changes needed to advance towards the long-term goals to halve and eventually eradicate child poverty. This will help to build on the reductions already made in the numbers of children in relative low income households, which fell by 0.6 milion after housing costs and 0.5 million before housing costs between 1998-99 and 2003-04;

- labour market policies have continued to contribute to ongoing improvements in headline employment and falls in unemployment, while also addressing the underlying weaknesses and inequalities within the labour market. Further announcements were made in the 2004 Pre Budget Report and the 2005 Budget to address the remaining pockets of unemployment, including a major expansion of the Pathways initiative; and

- a package of new measures to support further action on the abatement of greenhouse gas emissions, including new fiscal incentives, an energy services summit, and a new energy efficiency theme as part of the Government's Invest to Save Budget.

[3] all quoted on an output per worker basis.

[4] Available at: http://www.hm-treasury.gov.uk/consultations_and_legislation/productivity_indicators/consult_productivity_indicators_index.cfm

Delivering High Quality Public Services

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

- the 2004 Spending Review also set new Public Service Agreement targets for Departments for the period 2005-08, which were developed and refined taking into account the findings of the Devolved Decision Making Review; and

- the publication, in December 2004, of Sir Michael Lyons' report 'Towards Better Management of Public Sector Assets', which made a number of recommendations on the good stewardship of publicly owned assets.

Treasury Corporate

Alongside the 2004 Budget, the Treasury published Gus O'Donnell's review of the best practice organisational arrangements for the Revenue Departments. The review recognised that, if the Treasury was to succeed in its ambition to be a world class finance ministry, its range and scope of functions and responsibilities needed to reflect its objectives. Therefore, it was recommended that responsibility for tax policy should be transferred to the Treasury, while tax policy maintenance should remain with HM Revenue & Customs. The Treasury has now implemented the changes, the transfer of 150 tax policy posts began in summer 2004 and was completed by March 2005.

The Treasury must not only deliver its objectives, but deliver them in the most efficient and effective manner. A number of measures are being undertaken as part of the Treasury's Efficiency Plan, which will help to deliver a more streamlined and effective corporate centre: these include the transformation of the Human Resources and Information Services functions.

CHALLENGES AND PRIORITIES FOR 2005-06

2005 represents a unique opportunity for the UK Government to influence the international development and EU agendas through its duel presidencies of the G7 and EU. The Treasury will be continuing to press for the creation of an International Finance Facility to tackle global poverty and finance achievement of the 2015 Millennium Development Goals. The Treasury will also continue to work to advance the pace of economic reform in Europe – with a focus on strengthening the key drivers of productivity growth and improving the functioning of EU labour markets, and winning the debate on the future direction of policy towards financial services in Europe.

Another key priority throughout both presidencies will be the work on climate change – including lobbying to incorporate aviation into the second phase of the EU Emissions Trading Scheme from 2008.

The Government has accepted the detailed recommendations of the Commission for Africa and will work through the UK's presidencies to secure their implementation.

On domestic issues, areas of key focus will include: supporting and challenging other government departments to deliver their efficiency targets, and engage in the reform required for continuous improvement; working with the Cabinet Office and other Government Departments on the implementation of the Government's better regulation agenda; and working with the DTI on the broad range of energy industries. 2005-06 will also see preparations for the next Spending Review.

The Treasury will also be working to improve financial management across government, including transforming the Treasury's financial management of government spending, with significant improvements to information systems.

Corporately, the Treasury will continue to manage its resources and improve its business processes and corporate services, including through the Whitehall Human Resources Shared Services project, to enable the delivery of its objectives within the constraint of tighter budgets and efficiency targets, while maintaining the Treasury as an excellent place to work.

1 Context and Organisational Structure

- Context
- Ministerial Responsibilites
- Departmental Structure

Context

1.1 This report is an account of the Treasury's use of resources in 2004-05. The Treasury's 2002 Public Service Agreement (PSA) covering the period 2003-06 sets out an aim and objectives for which those resources were allocated, and targets for measuring progress towards achieving the aim and objectives. This report focuses on how these targets are being achieved within the agreed resources, and highlights planned activities for the coming financial year.

1.2 This report also contains a summary of the performance of the Treasury's offices: the Debt Management Office (DMO) and the Office of Government Commerce (OGC). More information on their objectives and performance can be found on their websites at DMO www.dmo.gov.uk and OGC www.ogc.gov.uk

1.3 The 2002 Spending Review (SR2002) set PSA targets for the period 2003-06. These targets in most cases left unchanged, or reinforced and refined, targets set for the period 2001-04 under the 2000 Spending Review (SR2000); as such the reporting for these targets is combined in Annex A1[1]. The Treasury also has one outstanding PSA target set for the period 1999-2002 under the 1998 Comprehensive Spending Review (CSR1998). Performance against this target is in Annex A2.

1.4 The 2004 Spending Review (SR2004) set new targets for the Treasury for the period 2005-08. The first report against the SR2004 targets will be given in the 2005 Autumn Performance Report. To show the continuity of targets over Spending Reviews, Annex A4 shows how these targets map to the SR2002 set.

Performance Information

1.5 In SR2000 and CSR1998, each of the Treasury's objectives had at least one PSA target and a Performance Indicator (PI) to measure progress. Objectives cover the full range of departmental activity over the medium term whereas PSA targets identify the specific priorities that Government aims to achieve in order to measure progress towards the objectives in the three year time frame covered by the spending plans. In SR2002 seven of our objectives had related PSA targets. Some of our targets are short term, where a significant change can be seen over a relatively short period of time. Some are longer term, where change is less obvious in the short term and progress needs to be assessed over a longer time period.

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

1.7 As part of SR2000 the Treasury also published a Service Delivery Agreement (SDA) explaining how it would deliver the high-level targets set out in its PSA, and how it would modernise and reform itself to get better value for money in achieving them. These SDA targets were further developed during SR2002. Where these SDA targets relate directly to performance against a PSA target or an objective, reporting is combined in Annex A1. Where these SDA targets relate to the corporate functions of the Department, reporting is shown in Annex A3.

[1] A full mapping of the PSA targets from SR2000 and SR2002 can be found in the HM Treasury Departmental Report 2004 (Cm6222), available on the Treasury website at: http://www.hm-treasury.gov.uk/about/departmental_reports/deptreport_2004.cfm

[2] http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/ publicservice_performance/pss_perf_technote02.cfm

1.8 SDA targets were not set under SR2004, but the Treasury will continue to report on any earlier SDA targets while they remain live.

Progress

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

- Annex A1 – reports combined performance against SR2002 PSA targets (2003-06) and SR2000 PSA targets (2001-04);
- Annex A2 – reports performance against the outstanding CSR1998 PSA target (1999-2002);
- Annex A3 – reports combined performance against outstanding SR2002 SDA targets and SR2000 SDA targets, addressing those targets where final outturns have not previously been published; and
- Annex A4 - maps SR2002 PSA targets (2003-06) to the SR2004 PSA targets (2005-08).

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

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

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

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

HM Treasury's aim and objectives - 2002 Spending Review

The overall aim of the Treasury for the SR2002 period (2003-2006) is to **raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all**.

Table 1.1: HM Treasury's objectives (2003-06)

Maintaining stability at home and overseas	Maintaining a stable macroeconomic framework with low inflation (Objective I) Maintaining sound public finances in accordance with the Code for Fiscal Stability (Objective II) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable (Objective III)
Raising Trend Growth	Increasing the productivity of the economy (Objective IV) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest (Objective V)
Promoting fairness and opportunity for all	Expanding economic and employment opportunities for all (Objective VI) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest (Objective VII) To protect and the improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies (Objective X)
Delivering high quality public services	Improving the quality and effectiveness of public service (Objective VIII) Achieving a high standard of regularity, propriety and accountability in public finances (Objective IX)

CHANCELLOR OF THE EXCHEQUER:
RT HON GORDON BROWN, MP

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

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

- Responsibility for public expenditure including;
  - spending reviews and strategic planning;
  - in-year control;
  - public sector pay and pensions;
  - efficiency in public services;
  - capital investment; and
  - public delivery and PSA targets.
- Treasury interest in Devolution;
- Responsibility for financial services including strategic oversight of banking, financial services and insurance working with the Economic Secretary; and
- Assist the Chancellor where necessary on European issues.

PAYMASTER GENERAL:
RT HON
DAWN PRIMAROLO, MP

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

FINANCIAL SECRETARY
TO THE TREASURY:
JOHN HEALEY, MP

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

ECONOMIC SECRETARY
TO THE TREASURY:
IVAN LEWIS, MP

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

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GUS O'DONNELL

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2 Maintaining Stability at Home and Overseas

Objective 1 To maintain a stable macroeconomic framework with low inflation

Performance against target

2.1 PSA target 2 relates directly to this objective, and states that:

> Inflation is 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 CPI).

2.2 During the period April 2004 to March 2005, CPI inflation was slightly below target, ranging from 1.1 to 1.9 per cent, as illustrated in Table 2.1.

Delivery

2.3 The Treasury seeks to deliver Objective 1 by:

- setting a stable and prudent macroeconomic framework that fosters economic stability and reduces the variability of output and inflation, and by increasing productivity;
- enabling full operational independence for the Monetary Policy Committee in setting interest rates to meet the Government's inflation target;
- setting clear, long-term policy objectives; and
- following predictable, well understood procedural rules for fiscal and monetary policy making.

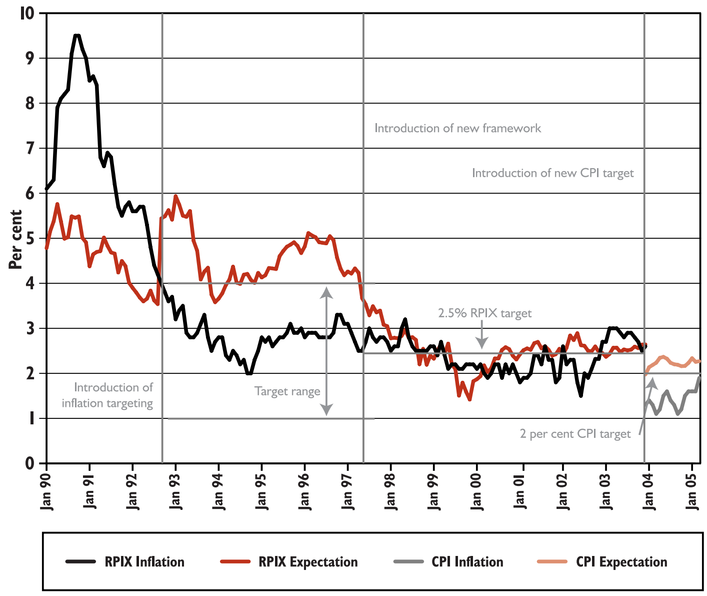
Achievements

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

Table 2.1: Inflation performance 2004-05

Per Cent	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05
CPI	1.2	1.5	1.6	1.4	1.3	1.1	1.2	1.5	1.6	1.6	1.6	1.9

Figure 2.2: Inflation performance and expectations



2.5 The UK economy has continued to grow in recent years despite the impact of weak global demand and ongoing global uncertainty. For more information see Chapter 3 of this report.

2.6 Objective I commits the Treasury to a macroeconomic framework that promotes stability. This has been achieved through transparent monetary and fiscal frameworks whose credibility is demonstrated by the fact that market expectations of inflation have remained around the inflation target since the introduction of these frameworks in 1997. Over the past year, employment has risen to record levels, while unemployment on both measures has remained close to its lowest levels for a generation, with claimant count unemployment below three per cent for the first time since 1975.

Future Plans

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

Objective II To maintain sound public finances in accordance with the code for fiscal stability

Performance against target

2.8 PSA Target 3 relates directly to this objective, and states that:

> 'Over this economic cycle maintain: public sector net debt below 40 per cent of GDP; and the current budget in balance or surplus.'

2.9 Performance against this target in 2004-05 was as follows:

- public sector net debt was 34.5 per cent of GDP, well below the 40 per cent ceiling; and
- the current budget since the start of the current economic cycle (which is not yet complete) shows an average annual surplus up to 2004-05 of 0.1 per cent of GDP.

Delivery

2.10 The Treasury seeks to deliver Objective II by:

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

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

Achievements

2.11 The current budget shows an average surplus as a percentage of GDP over the current economic cycle, ensuring the Government is meeting the Golden Rule.

2.12 Public sector net debt has been below 40 per cent of GDP in every year of the current economic cycle, meeting the sustainable investment rule. The low debt ratio means that debt interest payments are projected to average 2.1 per cent of GDP over the projection period compared with 2.9 per cent of GDP in the 1970s, 4.2 per cent in the 1980s and 3.3 per cent in the 1990s. This has released resources for key public service priorities.

Future Plans

2.13 The 2005 Budget confirmed that the Government will continue to ensure sound and sustainable public finances over the medium term with fiscal policy supporting monetary policy:

- on target 3(a), public sector net debt is projected to remain low reaching 35.5 per cent at the end of this economic cycle, £57 billion below the 40 per cent level and stabilising at around 37 per cent at the end of the projection period (see fig 2.3); and

- on target 3(b) the current budget since the start of the current economic cycle in 1999-00 shows an average annual surplus up to 2005-06 of 0.1 per cent of GDP. The Government is therefore on course to meet this target on the basis of cautious assumptions.

2.14 Consistent with meeting the rules, the Government announced in the 2005 Budget measures such as:

- a long-term programme of investment to deliver twenty-first century facilities in primary schools;

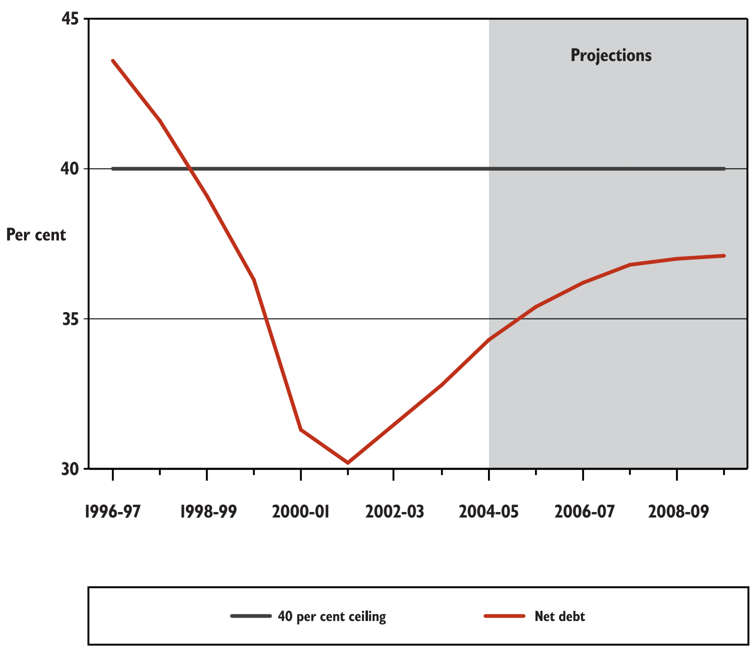
- free local bus travel for people over the age of 60 and disabled people from April 2006, and an additional payment guaranteeing that council tax paying households with someone over 65 will receive £200 towards the cost of council tax;

- a commitment to increase the child element of the Child Tax Credit in line with average earnings up to 2007-08;

- a further £340 million for the special reserve in 2004-05 and £400 million in 2005-06 for military operations in Iraq and the UK's other international obligations; and

- further reforms to modernise the tax system, and to tackle tax fraud and avoidance.

Figure 2.3: Meeting the Sustainable Investment Rule



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

Performance against target

2.15 PSA target 4 relates specifically to this objective. It states that the Treasury will:

Promote increased global prosperity and social justice by:

- working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards;
- ensuring that three-quarters of all eligible HIPC countries committed to poverty reduction receive irrevocable debt relief by 2006 and working with international partners to make progress towards the United Nations 2015 Millennium Development Goals (joint with the Department for International Development); and
- demonstrating progress towards the Lisbon goals by 2006, by working with our European Union partners to achieve structural economic reform in Europe.

4(I) WORKING TO INCREASE THE NUMBER OF COUNTRIES SUCCESSFULLY PARTICIPATING IN THE GLOBAL ECONOMY ON THE BASIS OF A SYSTEM OF INTERNATIONALLY AGREED AND MONITORED CODES AND STANDARDS.

2.16 The Treasury is on course to meet this target. At the end of December 2004 (the last date for which data are available) 615 assessments for 114 countries had been undertaken to monitor and measure countries' compliance with codes and standards. 456 of these assessments have been published.

Delivery

2.17 Delivery of this objective is achieved primarily through close and collaborative working relationships with the relevant institutions, and protecting the UK's influence in international fora. The UK's active membership of the G7 plays a vital role in taking forward the Treasury's international agenda. Beyond this, the Chancellor's role as chair of the International Monetary and Financial Committee (IMFC) – the ministerial steering committee for the International Monetary Fund (IMF) – has allowed the UK to play a particularly influential role in shaping that institution's priorities and gaining widespread acceptance of the importance of codes and standards in the international financial system.

Achievements

2.18 Excellent progress has been made on the Reports on the Observance of Standards and Codes (ROSCs) over the last year: 123 new assessments have been completed, including 13 new countries which have undertaken their first ROSC.

2.19 In addition, the Treasury has continued to make progress in the IMF and in other institutions across a wide range of issues, as set out in the Treasury's Annual Report to Parliament on the UK and the IMF. Key achievements in the past year include the completion of the IMF's surveillance review, which will deepen the discussion of exchange rate issues and enhance financial sector surveillance; and the introduction of the Trade Integration Mechanism, to assist countries with potential balance of payments shortfalls following trade liberalisation. Further details on this and other work are available in the Annual Report.

Future Plans

2.20 The Treasury will continue to use all formal and informal finance ministry networks to advance the UK's international financial interests and to deliver the objectives associated with the international system. Over the next financial year a particular focus will be on the UK's presidencies of the G7 and EU.

4 (II) (A) ENSURING THAT THREE-QUARTERS OF ALL ELIGIBLE HIPC COUNTRIES COMMITTED TO POVERTY REDUCTION RECEIVE IRREVOCABLE DEBT RELIEF BY 2006

2.21 Real progress has been made since the enhancement of HIPC in 1999. The UK strongly champions the Initiative and continues to press to make it more effective in delivering relief. Six countries reached Completion Point in 2004, and a further 3 countries by April 2005. So far 18 countries out of 27 have reached Completion Point and received irrevocable debt relief. Under the UK's Presidency, the G8 have also proposed the cancellation of 100 per cent of outstanding obligations of HIPCs to the IMF, World Bank and African Development Bank (AfDB).

Table 2.4: Dates of Decision Points and Completion Points under the Enhanced HIPC Initiative

Country	Date of Decision Point	Date of Completion Point
Bolivia	January 2000	May 2001
Mauritania	March 2000	June 2002
Uganda	March 2000	May 2000
Mozambique	April 2000	September 2001
Tanzania	April 2000	December 2001
Senegal	June 2000	March 2004
Benin	July 2000	March 2003
Burkina Faso	July 2000	April 2002
Honduras	July 2000	April 2005
Mali	September 2000	March 2003
Cameroon	October 2000	-
Guyana	November 2000	December 2003
The Gambia	December 2000	-
Guinea	December 2000	-
Guinea-Bissau	December 2000	-
Madagascar	December 2000	October 2004
Malawi	December 2000	-
Nicaragua	December 2000	January 2004
Niger	December 2000	April 2004
Rwanda	December 2000	April 2005
São Tomé and Príncipe	December 2000	-
Zambia	December 2000	April 2005
Chad	May 2001	-
Ethiopia	November 2001	April 2004
Ghana	February 2002	July 2004
Sierra Leone	March 2002	-
DR Congo	July 2003	-

4 (II) (B) WORKING WITH INTERNATIONAL PARTNERS TO MAKE PROGRESS TOWARDS THE UN 2015 MILLENNIUM DEVELOPMENT GOALS (MDGS)

2.22 The MDGs are challenging targets. In some regions good progress has been made but overall progress is slower than expected. On current trends, only 2 of the 8 MDG targets are likely to be met (halving the proportion of people whose income is less than $1 a day and those without sustainable access to safe drinking water). The situation in Sub-Saharan Africa is especially critical as it is likely to fail to meet any of the MDGs by 2015 without urgent action. This is illustrated in Fig 2.5.

2.23 However, with the appropriate policies in developing and developed countries, supported by the right amount and effective use of resources, the goals can still be achieved. This year presents a unique opportunity for the UK to press for further action to meet the MDGs through our dual presidencies of the G8 and EU.

Delivery

2.24 The Treasury has continued to work closely with DfID and other partners to support progress towards the MDGs. This year, through our G8 and EU presidencies, the UK will press for immediate action on aid, trade and debt relief to help meet the MDGs. Given that the situation in Africa is especially critical, Africa has been named as one of two UK priorities for our G8 presidency this year, along with climate change.

2.25 The first meeting under the UK's presidency of the G7 Finance Ministers took place in February 2005. The G7 agreed: that a substantial increase in aid and other resources would be required to meet the MDGs; to as much as 100 per cent multilateral debt relief for heavily indebted poor countries; to undertake a work programme on the International Finance Facility (IFF) and other financing mechanisms; and to ensure that the Doha Round of trade negotiations delivers substantial benefits to developing countries. The UK Government will press for further action at the G8 and EU meetings this year, with the aim of launching the IFF.

2.26 On aid, EU Finance Ministers have agreed to reach the long-standing UN target of spending 0.7 per cent of national income on aid by 2015, with an intermediate EU target of 0.17 per cent ODA/GNI for new member states by 2010, and 0.51 per cent for other member states. This will generate an average EU aid spend of 0.56 per cent of national income by 2010, approximately a doubling of current EU aid.

2.27 The UK remains an influential voice at the Boards of the IMF and World Bank, particularly in supporting the full implementation of the HIPC Initiative and its objective of providing countries with a sustainable level of debt. Under its 100 per cent bilateral debt relief policy, the UK provides additional funds at Completion Point over and above those under the HIPC initiative. Under the UK's Presidency, the G8 have proposed the cancellation of 100 per cent of outstanding obligations of HIPCs to the IMF, World Bank and African Development Bank (AfDB). Donors would provide additional contributions to IDA and the AfDB to offset dollar for dollar the foregone principle and interest payments of the debt cancelled. The costs of fully covering IMF debt stock relief, without undermining the Fund's financing capacity, should be met by the use of existing IMF resources. These proposals will be put to the Annual Meetings of the IMF, World Bank and AfDB, and we call upon all shareholders to support them. On top of this, the UK will finance its share of 100 per cent multilateral debt service relief on behalf of eligible non-HIPC countries for the concessional debts owed to the World Bank and the African Development Bank.

Table 2.5: Timeline: when will the Millennium Development Goals be achieved if progress does not accelerate?[1]

	Poverty	Hunger	Primary Education	Gender Equality	Child Mortality	Access to water	Access to sanitation
Achieved	Arab states[2] East Asia & the Pacific	Central & Eastern Europe[2] & the CIS	Latin America & the Caribbean[2] Central & Eastern[2] Europe & the CIS East[2] Asia & the Pacific	Latin America & the Caribbean[2]		Central & Eastern[2] Europe & the CIS	
2000	World South Asia	East Asia & the Pacific			Latin America & the Caribbean	South Asia World Latin America & the Caribbean	
2015		Latin America & the Caribbean		East Asia & the Pacific	East Asia & the Pacific	East Asia & the Pacific	South Asia World Latin America & the Caribbean East Asia & the Pacific
2020		World	South Asia	Arab States South Asia	South Asia Arab States World	Sub-Saharan Africa	
2050			Arab States World				
2100		South Asia Sub-Saharan Africa	Sub-Saharan Africa		Sub-Saharan Africa		
2200					Cental & Eastern Europe & the CIS		
Reversal	Latin America & the Caribbean Sub-Saharan Africa Cental & Eastern Europe & the CIS	Arab States					Sub-Saharan Africa

[1]Source: UN Department of Economic and Social Affairs, 2003 Human Development Report

[2]Region is considered to have achieved the Goal because it has low human poverty (below 10 per cent) in the most recent year for the relevant Goal.

Future Plans

2.28 2005 represents a unique opportunity for the UK Government to influence the international development agenda. In order to meet the MDGs by 2015, substantial additional aid to developing countries is needed. To achieve this, the UK has proposed the creation of the IFF, which has received widespread international support, but further action is needed to make the facility a reality. The UK Government will continue to use its dual presidencies this year and other international fora to press for the creation of the IFF for securing100 per cent multilateral debt relief and for trade reform.

2.29 The Government has accepted the detailed recommendations of the Commission for Africa and will work through the UK's presidencies to secure their implementation.

2.30 The Treasury will continue to work with partners, such as DfID, NGOs, business representatives and faith leaders to press for further action.

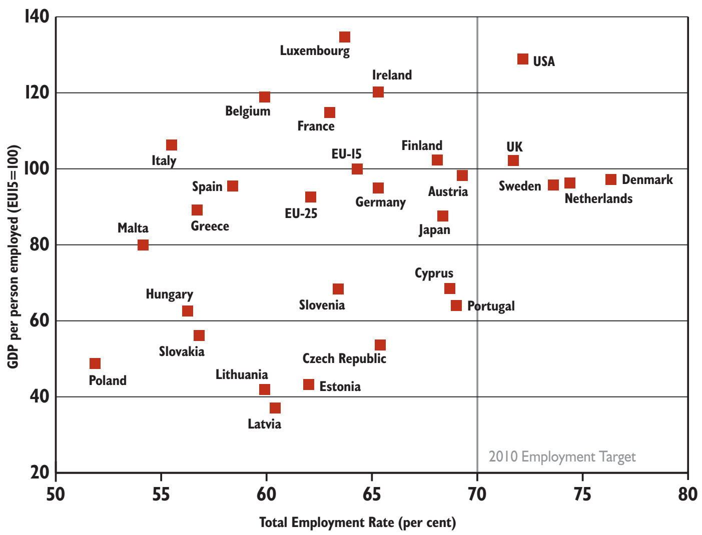
4(III) DEMONSTRATING PROGRESS TOWARDS THE LISBON GOALS BY 2006, BY WORKING WITH OUR EUROPEAN UNION PARTNERS TO ACHIEVE STRUCTURAL ECONOMIC REFORM IN EUROPE.

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

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

2.33 A detailed assessment of the challenges facing Europe were set out in the 2005 Budget companion document, 'Long-term global economic challenges and opportunities for Europe[3], and in 'Growth and Opportunity: prioritising economic reform in Europe'[4], published in February 2005.

Figure 2.6: GDP per person employed and employment rate



Source: Eurostat Structural Indicators database.
All data are for 2002; GDP per person employed data for Denmark, Sweden & UK are forecasts.

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

Delivery

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

2.35 Action to advance the Lisbon goals requires further reform to increase the flexibility of the EU economy, by strengthening the drivers of productivity growth and improving the functioning of European labour markets. Details of the Government's approach to delivery, and of its specific priorities for reform, were set out in the Treasury's February 2005 report[4]. The Government aims to use its upcoming Presidency of the EU to promote the need for urgent action to deliver the necessary structural reforms to achieve growth and full employment. The Government's priority objectives include: establishing a more outward-looking Europe to meet the global economic challenge; further regulatory reform, taking a risk-based approach and building on the December 2004 Six Presidency Initiative, to reach agreement among all Member States on the need to reduce the burden of new and existing legislation on business; and using Member State Lisbon National Reform Programmes to set out steps to be taken by each Member State to implement further structural reform, including labour market reform.

Achievements

2.36 The UK Government has continued to play a leading role in helping to establish a positive agenda for reform in Europe and in increasing the momentum of reform in specific areas. The Government's September 2004 submission to the High-Level Group chaired by Wim Kok contained a series of proposals for reform, many of which were adopted by the High-Level Group in its final report to the European Commission. The European Commission's February 2005 communication to the spring European Council also endorsed a significant number of UK policy objectives. The March 2005 European Council concluded the EU's mid-term review of the Lisbon strategy and endorsed a series of actions designed to improve implementation of reform across the European Union and to give greater prioritisation to the key objectives of higher growth and employment.

2.37 Over the course of the year a number of specific steps have also been taken at the Community level and by Member States to advance the Lisbon goals. An updated and extended initiative, 'Advancing Regulatory Reform in Europe'[5], was launched in December 2004 which established regulatory reform as a priority of all six EU Presidencies in 2004, 2005 and 2006. This initiative presented a series of concrete proposals to improve impact assessment of existing regulation, make faster progress in simplifying the existing stock of EU laws, and improve business input into the regulatory reform process. The European Commission's March 2005 communication on regulatory reform welcomed the Six Presidencies initiative, recognised the need to ensure that regulation does not stifle jobs and growth, and outlined the Commission's intention to pursue reform in line with these priorities[6].

2.38 Action is also being taken to strengthen further the European competition policy framework. Building on UK ideas, the European Commission's February 2005 Communication to the Spring European Council[7] promised that "sectoral screenings of the barriers to competition will be launched in sectors such as energy, telecoms and financial services". The Government strongly supports the enhanced role of sectoral enquiries in enforcing competition policy, which mirrors the UK approach.

2.39 At the national level, many Member States have also taken steps to promote enterprise, innovation and labour market flexibility. The UK has helped to encourage this by participating actively in the EU's peer review processes and working bilaterally with several Member States to share experiences of reform.

Future Plans

2.40 The Treasury and other Government departments will continue to work with the European Commission and our EU partners to advance the pace of economic reform in Europe. This work will continue to focus on strengthening the key drivers of productivity growth and improving the functioning of EU labour markets. As global competition strengthens, the Government will also press for additional progress towards establishing a more outward-looking Europe.

[4] http://www.hm-treasury.gov.uk/media/261/64/Growth_and_Opportunity-381MB.pdf
[5] http://www.hm-treasury.gov.uk/media/95A/52/6presidencies.pdf
[6] Better regulation for Growth and Jobs in the European Union http://europa.eu.int/comm/enterprise/regulation/better_regulation/better_reg_com_en.pdf
[7] Working together for growth and jobs: A new start for the Lisbon Strategy http://europa.eu.int/growthandjobs/pdf/COM2005_024_en.pdf

3 Raising Trend Growth

INCREASING THE TREND RATE OF GROWTH

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

> 'Demonstrate progress by 2004 on the Government's long-term objective of raising the rate of trend growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006'.

3.2 The measure of the Treasury's performance in meeting this target is the estimate of the rate of trend output growth over the current economic cycle, which commenced in mid-1999. However, this cannot be fully determined until the current economic cycle comes to an end, which is expected to occur around the end of 2005[1]. Nevertheless the average rate of growth so far during the current cycle becomes a more relevant indicator as the end of the cycle draws closer.

3.3 Until the current cycle has ended, it is also relevant to report developments over the last, complete economic cycle. However, this ran from the first half of 1997 to mid-1999 and was a very short cycle. The Treasury uses a longer period comprising one and a half economic cycles (between the on-trend points in 1997H1 and 2001Q3) to estimate trend output growth over the recent past, and, accordingly, reports the outcome over this period.

Performance against target

3.4 The Treasury is on course to meet this target over the current cycle. From the start of the current cycle in mid-1999 to 2005Q1, growth in actual real non-oil output (Gross Value Added (GVA)) is estimated to have averaged around 2.7 per cent a year. The Treasury judges that the economy in 2005Q1 was below trend, implying some further period of above trend growth to get back to trend. Hence the growth in actual real output from mid-1999 to when the economy returns to trend, and the cycle ends, is likely to be at least 2.7 per cent.

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

Period	Trend output per hour worked		Trend average hours worked (per cent)	Trend employment rate (per cent)	Population of working age (per cent)	Trend output (per cent)
	Underlying (per cent)	Actual (per cent)				
1986Q2 - 1997H1	2.22	2.04	-0.11	0.36	0.24	**2.55**
1997H1 - 2001Q3	2.70	2.50	-0.43	0.41	0.58	**3.06**

(The projected rate of trend output growth from 2001Q3 to the end of 2006 is 2¾ per cent and 2½ per cent thereafter)

DATA: ONS, HMT

[1]Page:226, Budget 2005, HM Treasury

3.5 The average annual trend rate of growth over the last one and half economic cycles (1997H1-2001Q3) was just over 3 per cent a year, as documented in Budget 2005[2]. This is higher than the average annual trend rate of 2.6 per cent estimated over the previous cycle (1986Q2 to 1997H1). Table 3.1 shows the latest data over the recent past (1997H1-2001Q3) and the previous cycle (1986Q2 to 1997H1).

Delivery

3.6 The policies and initiatives necessary to achieve the trend output growth PSA target inter-relate with a number of the Treasury's objectives, including Objectives I and II on macroeconomic stability, Objective IV on productivity and Objective VI on employment. Macroeconomic stability is important in improving growth in productivity and the employment rate over the economic cycle, which in turn increases the trend rate of output growth. The UK has experienced unprecedented macroeconomic stability since the new macroeconomic framework was introduced in 1997. The volatility of real GDP growth and inflation are now at their lowest sustained levels since quarterly national accounts data began. Further details of the delivery of each individual objective are detailed in this report.

Achievements

3.7 The new macroeconomic framework has allowed the UK economy to remain resilient in the face of the challenges and uncertainties that affected the world economy between 2001 and 2003. The UK was the only G7 economy to avoid any quarters of negative growth during this period. UK GDP has now grown for 51 consecutive quarters, the longest unbroken expansion since quarterly national accounts began. UK GDP is currently estimated to have grown by 3.1 per cent in 2004 as a whole, the fastest for four years (with non-oil GVA growing by 3.3 per cent).

Future Plans

3.8 The Treasury will continue to monitor closely economic developments affecting this target and the macroeconomic framework. As the current cycle is expected to end around the end of this year, and given the performance of output growth in this cycle so far, it is very likely that the target will be met comfortably.

[2]Page:222, Table B2, Budget 2005, HM Treasury

Objective IV Increase the productivity of the economy

Performance against target

3.9 There are two targets that relate directly to this objective:

PSA 5 – Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany (joint target with the Department for Trade and Industry); and

PSA 6 – Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006 (joint target with the Office for the Deputy Prime Minister and the Department for Trade and Industry).

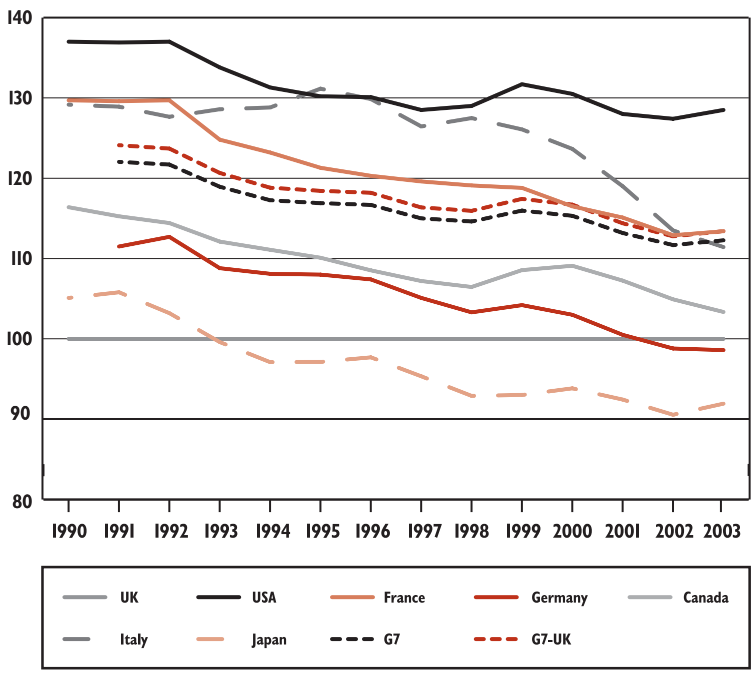
PSA 5 RAISING THE RATE OF UK PRODUCTIVITY GROWTH

3.10 Recent ONS data show clear signs that the UK is catching up on both of the key measures of labour productivity - output per worker and output per hour worked[3]. The UK has narrowed the output per worker gap with France to 10 per cent from 22 per cent in 1995. Despite a slight widening in 2003, the gap with the US has narrowed to 25 per cent from 30 per cent over the same period, and the productivity gap with Germany has closed.

3.11 On an output per hour basis the UK has further to catch up, although steady progress is being made. The gap with France has narrowed from 35 per cent in 1995, to 26 per cent in 2003, with Germany from 23 per cent to 13 per cent, and with the US from 23 per cent to 16 per cent.

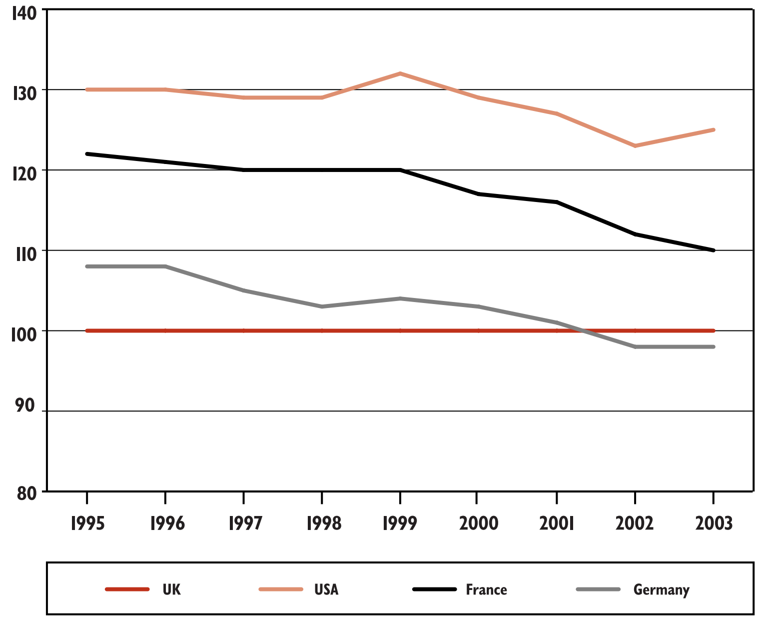
3.12 Between 1997 and 2001, the UK trend rate of actual productivity growth (figures not adjusted for employment growth) is estimated to have grown by 2.5 per cent a year, compared with a growth rate of 2.0 per cent a year in the previous economic cycle. Adjusting for the effect of employment growth, it is estimated that the underlying trend rate of productivity growth was 2.7 per cent between (1997H1-2001Q3) compared to 2.2 per cent over the previous economic cycle (1986Q2-1997H1).

Figure 3.2: Output per worker (UK=100)



[3]NB. Output per hour worked is an experimental measure of productivity

Figure 3.3: International comparisons of output per worker



UK=100

Source: ONS
Note: Data for 2003 are provisional and subject to revision.

PSA 6 MAKING SUSTAINABLE IMPROVEMENTS IN THE ECONOMIC PERFOMANCE OF ALL ENGLISH REGIONS AND REDUCING THE PERSISTENT GAP IN GROWTH RATES BETWEEN THE REGIONS

3.13 A full assessment of trends in regional economic performance and disparities cannot be fully determined until the current economic cycle is complete, but there are some encouraging signs:

- in 2003 (the last year for which data are available) the six under-performing regions had provisional nominal GVA growth rates of between 5.3 per cent and 5.5 per cent. This was even faster than for the 3 greater Southern regions; and
- all regions of the UK grew in 2003 (between 2.4 per cent and 5.5 per cent).

3.14 In addition to the GVA data there is other encouraging evidence. In particular: unemployment is decreasing and employment rates are up in the North; the North, Midlands and South West all saw increases in business start up rates, and general entrepreneurial activity has risen; and the number of pupils with 5+ GCSEs increased in all regions.

3.15 Important policy measures that will promote the likelihood of this target being met were announced in the 2004 Pre Budget Report, including:

- a national roll-out of the Employer Training Pilots in a National Employer Skills Programme;
- a major expansion of the Pathways to Work pilots for incapacity benefits claimants to an additional fourteen Jobcentre Plus districts; and
- a Ten Year Strategy for childcare.

3.16 Amongst other measures the 2005 Budget announced changes to strengthen regional institutions, including:

- emerging proposals of the joint review of Government Offices to create a more strategic GO network; and
- a new performance management framework for the RDAs to promote their transparency, efficiency and effectiveness.

3.17 The Government will soon be responding to the results of the recent consultation on proposals to establish regional transport funding allocations for the first time, and to supplement the regional transport, economic development and housing funding allocations set over the 2004 Spending Review period with guidance on long term planning assumptions for the regions beyond the spending review period.

Delivery

3.18 The Government has identified five drivers of productivity:

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

3.19 In Budget 2004, the Government announced it would be consulting on indicators to help monitor progress on the drivers of productivity. This has now been completed[5]. The new indicators will help to monitor progress on productivity and provide early warning of where more policy action may be necessary.

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

- A package of radical reforms announced in Budget 2005 to tackle the burden of regulation on business, while maintaining standards of protection for the public, consumers and employees, through:
  - building on the success of the Panel for Regulatory Accountability (PRA) by ensuring that regulation is only used where necessary, that it is not 'gold plated' if it originates from EU law, and that all Whitehall departments strengthen their focus on removing outdated and unnecessary regulations as recommended by the Better Regulation Task Force (BRTF) report;
  - adopting a risk-based approach to inspection and enforcement, streamlining regulatory structures and increasing accountability in order to reduce the costs to business of administering regulation, as recommended by the Hampton Review, and setting new targets to reduce the administrative burden over time; and
  - applying the principles of better regulation in Europe through the six presidencies initiative.
- publication of final report of the Graham Review of the Small Firms Loan Guarantee (SFLG). Recommendations included: that the SFLG offer more generous, but better targeted, support to small firms; that the availability of the scheme be widened; and that its administrative structure be modernised and deregulated. The Government has accepted the recommendations set out in the Review's final report in full, and has announced that they will be fully implemented by the end of 2005;
- support for enterprise, through a new Local Enterprise Growth Initiative worth £150 million per year by 2008-09, to boost enterprise in the most deprived areas of England, following the end of the time-limited commercial stamp duty land tax disadvantaged areas relief; and Regional Development Agencies' (RDAs) plans for the development of business coaching focused on businesses with high growth prospects;
- publication of a Ten-year investment framework for science and innovation which provides a platform for future productivity growth and public service delivery through innovation in the UK. It includes an ambitious target for R&D intensity in the UK (R&D as a percentage of GDP) to reach 2.5 per cent by around 2014, from the current level of 1.9 per cent;
- establishing an independent review to examine the future skills needs of the UK economy to be led by Sandy Leitch (Chairman of the National Employment Panel and formerly a Chief Executive of Zurich Financial Services);
- giving employers the opportunity to access free and flexibly delivered training for their low-skilled employees through a National Employer Training Programme; and
- increasing resources for transport, targeting the investment driver, with spending £2.4 billion higher in 2007-08 than in 2004-05, an average annual rate of 4.5 per cent in real terms over the 2004 Spending Review period.

[5]The new set of national productivity indicators can be viewed on the DTI website (www.dti.gov.uk/economics). The indicators will be updated regularly and will benchmark the UK's performance against the US, France, and Germany.

Achievements

3.21 The Government has significantly increased spending on education and skills, with education spending in England set to be £11.9 billion higher in 2007-08 than in 2004-05 and per pupil funding rising to at least £5,500 by 2007-08, more than double the 1997 figure. The UK skills level is rising: in 1997, 13 per cent of economically active people in England had no qualifications, dropping to 9.6 per cent by Autumn 2004. The proportion of people qualified to below level 2 also decreased, from 22 per cent in 1997 to 18.8 per cent in Autumn 2004. The proportion qualified to level 4 or above increased from 23.7 per cent to 24.4 per cent over the same period.

3.22 The UK has risen 4 places to 11th in the WEF's Global Competitiveness Report, which measures the competitive economic and business climate of 101 nations. The UK moved ahead of Germany (in 13th) and well ahead of France (in 27th), with the report claiming the stability of the economy and a good environment for business were the main drivers for the move.

3.23 The first Prime Minister chaired Panel for Regulatory Accountability (established by the Treasury) was held which secured an agreement from the DTI to cut the regulatory burden to business by £1bn over the lifetime of the DTI's 5 year plan.

Future Plans

3.24 Measures announced in Budget 2005, including implementing the recommendations of the Hampton review of regulatory inspection and enforcement.

3.25 Further work on implementation of the 10 Year Science and Innovation Investment Framework, including a UK Stem Cell Initiative, chaired by Sir John Pattison to formulate a ten-year vision for stem cell research.

3.26 Leitch Review of Skills to report back to Government in spring 2006 on what skills profile the UK should aim to achieve by 2020 in order to support productivity, economic growth as well as social objectives over the longer-term.

3.27 Further progress on the implementation of the recommendations of the Barker Review of Housing Supply, including the merging of Regional Housing Boards (RHBs) and Regional Planning Bodies (RPBs) to create integrated bodies responsible for managing regional housing markets, and the establishment of an independent advice unit to strengthen the evidence and analysis on improving housing market affordability available to regional bodies throughout the regional planning process.

Objective V

Secure an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest

Performance against target

There is no PSA target for Objective V. The Treasury is assessed against SDA Targets 5.1-5.5. The Treasury is on course to meet these targets.

Delivery

3.28 To meet Objective V, including SDA Targets 5.1-5.5, the Treasury has put in place policies aimed at:

- making refinements of a deregulatory nature to the new legislative and regulatory framework established under the Financial Services and Markets Act 2000 (FSMA);
- maintaining the framework for safeguarding financial stability;
- improving the transparency, accessibility and responsiveness of retail financial markets, particularly in response to reviews such as the Sandler Review into the savings market and through on-going policy work;
- working towards an EU a single market in financial services, and progress in the World Trade Organisation (WTO) towards more open global trade; and
- improving national and international systems for fighting crime, especially those relating to money laundering and terrorist financing.

Achievements

3.29 In December 2004 the Treasury, working alongside the Financial Services Authority (FSA), Office of Fair Trading (OFT) and Financial Ombudsman Service (FOS), announced the outcomes of the **FSMA two year review**[6]. Among other things, the Treasury will introduce a comprehensive package of deregulatory reforms in spring 2005. These will keep FSMA at the forefront of regulatory best-practice while addressing important public policy issues such as the need for people to save more for retirement and helping people to manage personal debt problems better.

3.30 In July 2004 the Treasury successfully hosted a **Resilience and Contingency Planning** Conference involving over a hundred private sector participants. The first financial sector-wide test of business continuity communications arrangements, organised by the Treasury, the FSA and the Bank of England, with private sector support, was held in November 2004.

3.31 Following the **Sandler** Review of medium - and long-term retail savings, in December 2004 the Treasury put in place legislation to create the stakeholder short-term cash deposit account and the medium-term investment product. The product suite will include a revised Stakeholder Pension and the Child Trust Fund is available within the suite.

3.32 In December 2004 Paul **Myners** published his report[7] on the corporate governance of life mutuals. This provided a proportionate and pragmatic set of recommendations that build on the work of Sir Derek Higgs on corporate governance and complements the reviews by Sir Derek Morris, Paul Myners and Ron Sandler in improving the efficiency of the investment chain which links savers and the businesses in which they invest.

3.33 In December 2004 the Treasury published the Government's review[8] of progress against the **Myners principles for institutional investment decision-making** - the principles being an important element in improving the efficiency of the investment chain. The review showed that while the principles are starting to have an effect, progress is slow in some key areas. The Government has therefore proposed revisions to the principles to strengthen trustee expertise and improve other aspects of investment decision-making.

3.34 Sir Derek **Morris** published his report[9] on the actuarial profession in March 2005, making a number of recommendations to increase competition in the market for actuarial services, to strengthen the regulatory framework for the actuarial profession and on the future role and institutional status of the Government Actuary and his Department. The report's central recommendation is that the regulation of the actuarial profession should be subject to independent oversight by the Financial Reporting Council.

[6]More information can be found on the Treasury website at http://www.hm-treasury.gov.uk./consultations_and_legislation/fsma_twoyrrev/consult_fsma2yrev_index.cfm
[7]Available on the Treasury website at http://www.hm-treasury.gov.uk/independent_reviews/myners_review/review_myners_index.cfm
[8]Available on the Treasury website at http://www.hm-treasury.gov.uk/media/DCB/53/myners_principles_web.pdf
[9]Available on the Treasury website at http://www.hm-treasury.gov.uk/media/CA0/9C/morris_final.pdf

3.35 A statement was published in Budget 2005 on the **Miles Review**[10], which set out good progress made by the Treasury and FSA in implementing recommendations designed to help make the UK mortgage market work better.

3.36 In December 2004 the Treasury published the document 'Promoting **financial inclusion**'[11] setting out the next steps for tackling financial exclusion in three priority areas – access to banking, affordable credit and free face-to-face money advice. The document announced a Financial Inclusion Fund of £120 million over three years to support initiatives to tackle financial exclusion, as well as the creation of a Financial Inclusion Taskforce.

3.37 The Treasury has continued to negotiate good outcomes for the UK on individual dossiers under the **EU Financial Services Action Plan (FSAP)** the programme of 42 measures designed to create an integrated EU finanical services market. The Treasury has also identified the UK's priorities for the future agenda for financial services in Europe. These are set out in two joint Treasury/FSA/Bank of England documents, published in May 2004 - '*The EU Financial Services Action Plan: Delivering the FSAP in the UK*'[12] and '*After the EU Financial Services Action Plan: A New Strategic Approach*'[13]. The Treasury has continued to work hard to shape the future direction of EU financial services policy by, among other things, responding in September 2004[14] and January 2005[15] to reports by the European Commission's four expert groups. On EU proposals for new **prudential capital rules**, following the publication of a consultation document in late 2003, throughout 2004 the Treasury has continued to consult industry via regular roundtables. The Treasury successfully influenced the discussion of **supervisory arrangements** in Europe following the publication of 'Supervising financial services in an integrated European Single Market: A discussion paper'.

3.38 In October 2004 the Treasury, in conjunction with the Home Office and Foreign and Commonwealth Office, published its '***Anti-Money Laundering Strategy***'[16] document, setting out how the Government will continue its fight against money laundering, based on the principles of effectiveness, proportionality and engagement with stakeholders. The Treasury was involved in the successful negotiation of a new Financial Action Task Force (FATF) Special Recommendation IX, calling on countries to stop cross-border movements of currency and monetary instruments relating to terrorist financing and money laundering, and to confiscate such funds. The Treasury has also frozen the assets of terrorist individuals and organisations. The UK continues to place combating money laundering and terrorist financing as a high priority on the international agenda.

3.39 In March 2005 the Treasury published the report '*The UK financial services sector: Rising to the challenges and opportunities of globalisation*'[17]. The report considers the long-term changes underway in the global economy and additional factors such as technological advances and financial liberalisation which are changing the structure of global financial markets, to identify the **key future challenges for the UK financial services sector**. The Government is committed to working with the financial services sector and others to meet these challenges.

Future Plans

3.40 In addition to the above, following the FSMA two-year review, the Treasury announced its intention in Budget 2005 to take forward some further initiatives to enhance the regulatory environment for the financial services sector in the UK[18].

3.41 The Treasury is committed to further **testing of arrangements for managing an operational crisis** with finanical market participants.

3.42 On **European financial services**, the Treasury's priorities will continue to be: first, to implement the FSAP measures in a sensible and cost-effective manner, avoiding unnecessary gold-plating and over-regulation, and second, to help define a future EU strategy for financial services that is based upon the principles of better regulation and that fully reflects the five priorities set out in the joint UK authorities' May 2004 paper.

3.43 The Treasury will also continue to work on bilateral discussions to increase the **liberalisation of global financial services**, in particular the broadening and deepening of the EU-US regulatory dialogue.

[10] See page 75 of 'Budget 2005, March 2005, Investing for our future: Fairness and opportunity for Britain's hard-working families', by the Treasury, available on the Treasury website at http://www.hm-treasury.gov.uk/media/AA7/1F/bud05_chap03_229.pdf

[11] Available on the Treasury website at http://www.hm-treasury.gov.uk/media/8F9/37/pbr04_profininc_complete_394.pdf

[12] Available on the Treasury website at http://www.hm-treasury.gov.uk/media/1B4/C6/1B4C6967-BCDC-D4B3-124E99B62E501FCD.pdf

[13] Available on the Treasury website at http://www.hm-treasury.gov.uk/media/1B4/D3/1B4D3E5A-BCDC-D4B3-14E1EB2D499571C2.pdf

[14] See 'After the EU Financial Services Action Plan: UK response to the reports of the four independent expert groups', by the Treasury, FSA and Bank of England, available on the Treasury website at http://www.hm-treasury.gov.uk/media/406/DE/406DE2E4-BCDC-D4B3-106864F573A9AF21.pdf

[15] See 'Supervising financial services in an integrated European Single Market: a discussion paper', by the Treasury, FSA and Bank of England, available on the Treasury website at http://www.hm-treasury.gov.uk/media/A50/DB/Supervising_Financial_Services_integrated_Eu_Single_Mk_Jan05_.pdf

[16] Available on the Treasury website at http://www.hm-treasury.gov.uk/media/D57/97/D579755E-BCDC-D4B3-19632628BD485787.pdf

[17] Available on the Treasury website at http://www.hm-treasury.gov.uk/media/CFE/2A/ukfinancemarch05.pdf

[18] See page 49 of 'Budget 2005, March 2005, Investing for our future: Fairness and opportunity for Britain's hard-working families', by the Treasury, available on the Treasury website at http://www.hm-treasury.gov.uk/media/AA7/1F/bud05_chap03_229.pdf

BETTER REGULATION

3.44 The Treasury has two roles relating to the better regulation agenda: promoting better regulation making within the Treasury (most Treasury regulation is EU-led and relates to Financial Services), and promoting better regulation across Government, taking forward the Chancellor's commitment to improve the regulatory environment for business and public services.

3.45 The Treasury is committed to furthering the better regulation agenda across Whitehall to ensure that regulation is used only where necessary, that administrative burdens upon business are minimised and by pushing an agenda of regulatory reform in Europe.

3.46 A significant step was taken in Budget 2005 when the Chancellor announced his acceptance of the recommendations of the Hampton Review which outlined a balanced package of reforms to reduce the costs to business of complying with regulations. The Hampton Review's recommendations present a far-reaching programme through which regulatory burdens upon business will be reduced. As part of the recommendations the Chancellor has announced that a risk-based approach should be applied by all regulatory bodies in all aspects of their work, including when making data requests from businesses, when shortening forms, when applying penalty regimes and when applying systems of inspection and enforcement.

3.47 The Hampton Report and the report of the Better Regulation Task Force (Less is More) also recommended the use of stronger and more independent structures of regulatory accountability at the centre of government to ensure effective delivery of their respective recommendations. The Chancellor announced in the Budget that this would be achieved by establishing a new Better Regulation Executive (BRE) in the Cabinet Office. In addition, the current Better Regulation Task Force will be transformed into a new Better Regulation Commission to sit alongside the BRE and provide independent advice to government from business and other stakeholders about new regulatory proposals, and about the Government's overall regulatory performance.

Compliance with RIA Process

3.48 The Treasury produced nine final Regulatory Impact Assessments (RIAs) between 1 April 2004 and 31 May 2005. These are available on the Treasury website[19].

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

Alternatives to classic regulation

3.50 The Treasury believes that legislation is always a measure of last resort and is committed to exploring alternatives to legislative responses. Following Paul Myners' original review of institutional investment in the UK[20], the Government endorsed Myners' recommendation that pension fund trustees should voluntarily adopt, on a 'comply or explain' basis, a set of principles codifying best practice for investment decision-making (the 'Myners principles'). In December 2004, the Government published its review of progress against the Myners principles.

3.51 The Government's proposals would mean that the Myners principles continue to operate as a flexible code of best practice. The Government's consultation on its proposals closed in March and it will bring forward its final recommendations shortly.

Consultation

3.52 The Treasury initiated 22 consultations between 1 April 2004 and 28 February 2005. A full list of these consultations is given on the Treasury website[21].

3.53 Of these consultations 18 lasted for twelve weeks or more. Treasury's consultation documents have positively influenced policy formation. For example, the recent consultation on the Prospectus Directive resulted in changes to the policy. While most respondents recognised in theory the benefits of an online prospectus (including easy public accessibility and cost-effectiveness), fears were nonetheless voiced that issuers might inadvertently contravene foreign security laws, as any electronic prospectus would then be internationally accessible. The overriding concern on this issue however was for those issuers who might not have their own website and this was the source of much of the opposition to this proposal. The Treasury accepted these legitimate concerns and has dropped this requirement.

Regulatory Reform Action Plan (RRAP)

3.54 The RRAP lists over 650 deregulatory measures identified since February 2002 by all regulating Departments.

[19] http://www.hm-treasury.gov.uk/consultations_and_legislation/ria/consult_ria_index.cfm

[20] Institutional investment in the UK: a review, Paul Myners, March 2001

[21] http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_fullindex.cfm

The Chancellor highlighted the progress of this regulatory reform programme in both Budget 2005 and the 2004 Pre-Budget Report.

3.55 Two of the Government's proposals are being carried out with the Office of National Statistics and are due to be implemented using Regulatory Reform Orders; these concern civil registration: births and deaths, and civil registration: marriages. However, these proposals do not affect businesses, charities and the voluntary sector.

3.56 The Treasury has one new item on the RRAP for 2005 which is a Regulatory Reform Order to implement deregulatory parts of the two-year review of the Financial Services and Markets Act (FSMA). The RRO will cut down on unnecessary consultation by the FSA, allowing it to operate more efficiently and respond more quickly to the needs of firms and consumers.

Effective use of RIAs

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

Better Regulation in Europe

3.58 The Treasury announced the revision of European transposition guidelines at the 2004 Pre-Budget Report. New guidelines were published by the Cabinet Office in March 2005 alongside the Budget. These will ensure that the UK implements EU laws in the clearest and least burdensome way possible, so that they can be administered in accordance with the principles of good regulatory practice set out by the Hampton Review.

3.59 In December 2004, with the addition of the Austrian and Finnish governments, the UK launched the 6 presidencies initiative which sets out a shared vision for further reform to improve the regulatory framework in Europe and reduce burdens on business. These commitments include: ensuring that administrative burdens are effectively minimised in the development of all new regulatory proposals; ensuring that all new proposals are properly scrutinised for their impact on competitiveness; identifying further priority areas for simplification of EU law; setting clear and measurable goals for controlling the economic and administrative burden of EU law; improving business input into the regulatory process, through a new business taskforce; and strengthening external quality control of impact assessments of EU law.

4 Promoting Fairness and Opportunity for All

Objective VI Expanding economic and employment opportunitites for all

Performance against target

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

> Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle (joint target with the Department for Work and Pensions).

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

4.2 The baseline for this target is spring 2003, when the seasonally adjusted International Labour Organisation (ILO) employment rate for the working age population of Great Britain (GB) stood at 74.8 per cent and the seasonally adjusted ILO unemployment rate for the population of GB, aged 16 and over, stood at 5.0 per cent. The latest available quarterly data (Office for National Statistics, Labour Market Statistics, February to April 2005) shows that the GB employment rate is now at 74.9 per cent, up by 0.1 percentage points on spring 2003 levels, and the unemployment rate is now at 4.7 per cent, a decrease of 0.3 percentage points.

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

Delivery

4.3 The Government's long-term goal is employment opportunity for all – the modern definition of full employment. Delivering this requires that everyone should be provided with the support they need to enable them to find employment and develop skills.

4.4 Strong employment performance requires a foundation of macroeconomic stability and reforms to improve the functioning and flexibility of the labour market, tackle structural unemployment, improve work incentives, and address the specific problems faced by particular groups or areas. The Government's policy framework underpinning its welfare to work agenda comprises:

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

Achievements

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

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

4.7 Jobcentre Plus was launched in April 2002, delivering, for the first time, an active, work-focused service to all benefit claimants of working age, helping unemployed and economically inactive people move closer to the labour market and search effectively for work. The nationwide rollout of this new business model – due to be completed in 2006 – represents a £2.2 billion investment in improved service and efficiency.

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

4.9 As a result of the New Deal's and other active labour market policies mentioned above employment rates have risen for lone parents, older workers, ethnic minorities, and people with a health condition or a disability, as well as in disadvantaged areas.

Future Plans

4.10 The Department for Work and Pensions (DWP) recently published a Five Year Strategy setting out the Government's long-term aspiration of an 80 per cent employment rate. This is an ambitious aspiration which reflects the importance of a rising employment rate both to support an ageing society and to extend employment opportunity to all disadvantaged groups and areas.

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

4.12 The Government is committed to building on the success of the New Deal, and to using its investment in staff, processes and information systems to enable the development of more locally-diverse labour market support. 'Building on New Deal: Local solutions meeting individual needs', published by the DWP in June 2004, outlines proposals to give greater empowerment to local Jobcentre Plus staff, enhancing their ability to respond effectively to the needs of individuals and to challenges in their area.

4.13 Building on its investment in Jobcentre Plus and the New Deal, the Government is now testing a new system of support and advice – combining Jobcentre Plus, the health service and the voluntary and private sector – that has not previously been available to incapacity benefits claimants. These Pathways to Work pilots are testing a structured ongoing intervention regime. Early evidence from the pilots shows that the Pathways approach is significantly improving the work prospects of incapacity benefits claimants.

4.14 To remove the inequalities in employment, training and enterprise support currently facing some ethnic minority groups, the Government will implement the ten main recommendations of the National Employment Panel's report 'Enterprising People, Enterprising Places', published in May 2005. The Chancellor has asked the Secretary of State for Work and Pensions to report to the Cabinet on progress.

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

Performance against target

PSA target 8 relates directly to this objective and states that the Treasury will:

> reduce the number of children in low-income households by at least a quarter by 2004-05, as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020 (joint target with the Department for Work and Pensions).

4.15 The most recent data show that between 1998-99 and 2003-04 the numbers of children in relative low-income households fell by 0.6 million after housing costs (AHC) and 0.5 million before housing costs (BHC)[1].

4.16 The Government is on course to meet this target on a BHC basis. Achieving the target is less certain on an AHC basis. The nature of the target means there are uncertainties either way.

4.17 The baselines for the target are 4.1 million children in low-income households after housing costs (AHC) and 3.1 million before housing costs (BHC)[2]. Progress is measured against both baselines. Low-income households are defined as households with income below 60 per cent of contemporary median equivalised income, as reported in the annual Households Below Average Income (HBAI) statistics[3]. HBAI statistics cover Great Britain and since 2002-03, the United Kingdom. They are published as National Statistics by the Department for Work and Pensions. HBAI outturn data for 2004-05 will be available in early 2006.

4.18 Additional background information to the measurement of this target is provided in the PSA technical note[3].

Delivery

4.19 The Government's strategy to tackle child poverty is multi-faceted and involves action across Government departments and with partners in the voluntary and community sectors and in local government. The strategy focuses on addressing the causes as well as the symptoms of child poverty:

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

4.20 Reforms aimed at providing more financial support for families include:

- increasing the value of Child Benefit. Since 1997, the value of Child Benefit for the first child has been increased by 25 per cent in real terms; and
- introducing the Child and Working Tax Credits from April 2003. The Child Tax Credit is part of the Government's progressive universalist approach, providing more support for all families and the greatest support for those who need it most, including those with low incomes, families with children under one and those with disabled children. From April 2005, the child element of the Child Tax Credit will rise to £1,690 a year, representing a total increase of £245 since its introduction in April 2003. The Government is committed to continuing to increase the child element of the Child Tax Credit at least in line with average earnings up to and including 2007-08.

4.21 The Child Poverty Review was published alongside the 2004 Spending Review. It examined the welfare reform and public service changes needed to advance towards the long-term goals to halve and eradicate child poverty. The review team worked closely with government departments, academics, voluntary and community sectors organisations and others involved in service delivery. The review includes medium-term plans emerging from the 2004 Spending Review, for example: increased resources to improve the provision of good quality childcare for those who need it; and increasing the availability of

[1]Data from Households Below Average Income: An analysis of the income distribution 1994/95 – 2003/04. Department for Work and Pensions, March 2005.

[2]This year's HBAI has adopted a new grossing regime, resulting in a revision to the 1998-99 estimate for the number of children living in households with income below 60 per cent of median on the after housing costs (AHC) measure. More details are provided in DWP's 2005 Departmental Report

[3]Equivalised household income is income which has undergone a process by which it is adjusted to account for variations in household size and composition. Income is divided by scales which vary according to the number of adults and the number and age of dependents in the household.

[4]The PSA technical note is available at www.hm-treasury.gov.uk/documents/public_spending-and-services/publicservice_performance/pss_perf-table.cfm

decent housing and tackling financial exclusion. Further steps to improve the life chances of poor children were outlined, including: raising standards in schools; tackling health inequalities and providing extra support for families at risk.

4.22 For older members of society, the Government is continuing to build on the foundation of support provided by the Basic and Additional State pensions by focusing resources on the poorest pensioners. For example, the Pension Credit (introduced in October 2003) continues to support the poorest pensioners guaranteeing them a minimum income, and rewards those who have built up modest savings or have other modest income in retirement. As at December 2004, 2.65 million pensioner households (3.2 million individuals) were benefiting from Pension Credit. This is estimated to represent over 80 per cent take up by the poorest pensioners.

Achievements

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

- families with children will be, on average, £1,400 per year better off, while those in the poorest fifth of the population will be, on average, £3,200 per year better off;
- a single-earner family on half average male earnings with two children will be £3,700 a year better off; and
- a single-earner family on average male earnings with two young children will be £205 a year better off.

4.24 The 2005 Budget announced a series of measures targeted to increase pensioner income by indirectly reducing the cost of public services. Alongside the 2005 Winter Fuel Payment, council tax paying households with someone aged 65 or over will receive a £200 additional payment to help with council tax bills. In addition, from April 2006 those aged over 60 in England will be entitled to free off peak local area bus travel. Also from April 2006, those who have been in hospital for 52 weeks or more will no longer have their entitlement to their state retirement pension, and some other benefits, reduced for the duration of their stay.

4.25 The Government is committed to providing a clear and sustainable framework for retirement provision within which the pensioners of the future can make informed choices about how much to save and when to retire. The Finance Act 2004 legislated for a single universal regime for tax-privileged pension savings to replace the numerous existing tax regimes. This will come in to affect from April 2006.

4.26 In 2002, the Government set up the Pensions Commission to examine the regime for private pensions and long term savings and consider whether the level of compulsion within the UK pensions and retirement system is appropriate. An interim report was published in autumn 2004[5] and a final report will be published later this year.

Future Plans

4.27 The Government established a new target in the 2004 Spending Review to 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. This is a challenging target and the Government will continue to work closely with partner organisations as it develops policy across welfare reform and public services, building on the progress already made. The Government will set an additional target in the 2006 Spending Review to halve by 2010-11 the number of children suffering from both material deprivation and relative low-income.

4.28 The Government is taking forward the Informed Choice programme, which is helping people to make informed and effective choices about working and saving for their retirement and, at the same time, the new Pension Protection Fund and a new pro-active regulator will improve the security of occupational pension schemes. The Government is also improving opportunities for extended working lives through the combating of age discrimination and the provision for individuals of greater opportunity and reward for working longer, should they wish to do so.

[5] http://www.pensionscommission.org.uk/publications/2004/annrep/index.asp

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

Performance against target

4.29 The Government is committed to promoting sustainable development, which is vital to ensure and maintain a better quality of life for everyone. To achieve this, strong and stable economic growth and social progress must be balanced with action to protect and improve the environment. This was reflected in the new Objective X introduced from 2003 at the same time as the Treasury's new aim. There is no specific PSA target for Objective X. Progress on sustainable development is reported by the Government against a comprehensive set of sustainable development indicators. These include environmental indicators covering, for example, emissions of greenhouse gases, air quality, river water quality, land use and waste. Progress on these indicators has been generally positive since 1999.

4.30 The impact and effectiveness of policy is also monitored through the Budget and PBR process[6].

Delivery

4.31 The Treasury delivers against Objective X in two main ways. Firstly, by working with other departments to appraise the sustainable development implications of policy proposals. This relates particularly to the Treasury's work in spending reviews on the sustainable development implications of other Government departments' policies.

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

Achievements

4.33 The Treasury has made considerable progress against its environmental objectives particularly through the development and use of fiscal measures where it has a direct lead. A range of measures have already been introduced including the use of fuel duty rates and differentials to encourage the use of less polluting and more efficient fuels and vehicles; the climate change levy package to improve business energy efficiency; the landfill tax to encourage waste minimisation and alternatives to landfill; and the aggregates levy which promotes greater efficiency in the use of virgin aggregate and the development of alternative materials. Budget 2005 provided a stocktake of several of these measures, including publication of an independent evaluation of the climate change levy, which concluded that this measure will deliver annual savings of over 3.5 million tonnes of carbon in 2010.

4.34 Building on this, the Treasury has introduced a number of further measures in support of the environment. With DTI and Defra, the Treasury has been involved in the allocation of emissions allowances to UK industry in support of the introduction of the EU Emissions Trading Scheme. This will make a major impact on the way that businesses tackle climate change and energy efficiency throughout the EU.

4.35 Budget 2005 also announced a package of new measures to support further action on the abatement of greenhouse gas emissions, including new fiscal incentives, an energy services summit, and a new energy efficiency theme as part of the Government's Invest to Save Budget. The Landlords Energy Savings Allowance, providing an incentive for the private rented sector to improve its energy efficiency, has also been introduced and was extended in Budget 2005. Work has also been progressing on the feasibility of a biofuels obligation as part of a package of measures to support the development of biofuels.

4.36 The Treasury also worked to ensure that sustainable development was successfully integrated into Spending Review 2004 which established the Government's PSA target on climate change as a joint target shared between Defra, DTI and DfT.

4.37 Besides action on climate change, work has continued to address environmental issues raised in specific sectors such as agriculture and waste. Announcements have been made on the recycling of increases in the standard rate of landfill tax to boost action to reduce the volume of waste going to landfill, including through establishment of the Business Resource Efficiency and Waste programme. Progress has been made on consulting key

[6]Tables 7.1 and 7.2 in the 2005 Budget and 2004 Pre Budget Report on progress against the government's sustainable development indicators and the expected impact of Budget policies.

stakeholders on the potential for an enhanced capital allowance for waste and associated resource efficiency technologies. Budget 2005 also announced an increase in line with inflation of the landfill tax credit scheme. The Treasury and Defra also published a joint consultation on options for tackling diffuse water pollution. Furthermore, with HM Revenue & Customs and DfT, the Treasury has been working on the development and procurement of the Lorry Road User Charge.

Future Plans

4.38 The Treasury will continue to work with other Government departments and external stakeholders on the appraisal and development of sustainable development policies. It will also continue to explore the use of economic instruments to achieve its environmental and sustainable development objectives and to improve resource productivity, drawing upon the experience of existing taxation and trading measures. The next steps include:

- assessing the implications of the climate change programme review, which is due to report in the first half of 2005, as well as the review of the Renewables Obligation;
- work on climate change as a key priority within the Government's presidencies of the EU and G8, including lobbying to incorporate aviation into the second phase of the EU Emissions Trading Scheme from 2008 or as soon as possible thereafter;
- developing work on tax options for the PBR and Budget, including further work on the Green Landlord Scheme;
- further consultation with key stakeholders on an enhanced capital allowance scheme for waste and associated technologies, focussing on the introduction of new technologies, such as mechanical & biological treatment; and
- assessment of the feasibility study and consultative process around a Road Transport Fuels Obligation.

5 Delivering High Quality Public Services

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

Performance against target

5.1 The specific target for objective VIII is PSA target 9 and states that the Treasury will:

> 'Improve public services by working with departments to help them meet their PSA targets, consistently with the fiscal rules (joint target with the Cabinet Office).

The Treasury is currently on course to meet this target.

Delivery

5.2 The Government's long-term goal is to deliver world-class public services through investment and reform to ensure that taxpayers receive value for money. The Treasury works closely with the Prime Minister's Delivery Unit (PMDU) to assess progress and helps enable delivery by supporting the work of departments to deliver their targets. This involves:

- working with departments to realistically assess the prospects for delivery and identifying any key issues or barriers which need to be addressed; and
- learning from success elsewhere and spreading good practice, where the close working partnership with PMDU is extremely important. For example, joint seminars were held last autumn between the Treasury and PMDU to share experiences, analytical tools and approaches with those leading on delivery in departments.

5.3 A further key part of the public service reform agenda is to ensure a high level of transparency about what is being achieved. Departments are required to report formally twice yearly on their performance, in spring Departmental Reports and Autumn Performance Reports. In addition, a public website[1] brings together reporting of progress on all PSA targets and provides transparency about the concrete results which investment in public services is delivering.

5.4 The Treasury has developed, and continues to refine, a framework for planning and controlling public spending which:

- is underpinned by firm fiscal rules;
- provides a stable basis for departmental planning, with budgeting over three years;
- allocates resources on the basis of firm and fixed plans;
- provides separate allocation for capital spending, to ensure sustained increases in investment;
- links budgets to challenging outcome-focused targets as part of departmental Public Service Agreements; and
- links investment to reform and delivery.

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

5.5 The Cabinet Committee on Public Services and Public Expenditure's (PSX's) remit is to review public expenditure allocations and to make recommendations – including on Public Service Agreements – to the Cabinet. It also reviews progress in delivering the Government's programme of investment and reform of public services.

Achievements

5.6 The Treasury, working closely with the PMDU, has continued to support departments on delivery. As set out in this report, the majority of SR2002 targets have now been assessed on an interim basis and around 70 per cent were reported as being on course in the most recent Autumn Performance Reports. This compares with a figure of over 60 per cent in last year's Departmental reports.

5.7 Pay and workforce issues continue to be embedded into the delivery agenda through pay and workforce strategies, ensuring that pay, workforce reform and business transformation effectively support delivery objectives.

5.8 The 2004 Spending Review (SR2004) was delivered in July 2004. Within the overall envelope for public spending set in the 2004 Budget, SR2004 announced forecasts for Annually Managed Expenditure (AME) and plans for Departmental Expenditure Limits (DEL) for the period to 2007-08. Lower growth in AME spending would continue to enable higher increases in departmental spending on public services. AME was forecast to grow at 2.1 per cent a year on average in real terms between 2004-05 and 2007-08 therefore allowing DEL to grow at 4.2 per cent a year on average.

5.9 SR2004 confirmed that together with planned efficiency gains equivalent to at least £20 billion a year by 2007-08, these new spending plans will enable the Government to continue to deliver sustained improvements in front-line public services over the SR2004 period. Taking into account locally financed expenditure, spending on key priorities of education, health, social services, transport, housing and criminal justice will account for around three quarters of the total extra planned spending over the SR2004 period.

5.10 Since SR2004 there has been good progress by departments in delivering efficiencies and in cross-government action to support efficiency. Detailed longer-term plans are being developed for the whole spending review period up to 2008 and departments have published Efficiency Technical Notes, explaining how efficiency gains will be measured[2]. On relocation, around 4,300 posts had moved out of London and the South East by the end of 2004-05. Plans are on track that will result in over 10,000 posts - more than half the announced total target for 2010 - relocating by the end of 2007-08.

5.11 SR2004 also set PSA targets for the period 2005-08, which were developed and refined taking into account the findings of the Devolving Decision Making Review. The Treasury has been working with departments to ensure that where new targets have been introduced these will be driven forward by departments through their delivery plans with milestones and trajectories to help them plan strategically.

5.12 Sir Michael Lyons' report, 'Well placed to deliver? - Shaping the pattern of Government Service' was published on 15 March 2004. It concluded that the concentration of national public sector activity in London and the South East was inconsistent with Government objectives for efficiency and regional development, and that location needs to become an integral part of government planning. He identified 20,000 posts for dispersal from London and the South East which could generate savings of over £2 billion over 15 years.

5.13 On 3 December 2004, Sir Michael also published his separate report, 'Towards Better Management of Public Sector Assets'. That report made a number of important recommendations about the good stewardship of publicly owned assets. Since then, departments and public bodies have been asked how they will contribute towards the Government's objective of achieving asset disposals of £30 billion by 2010 as well as implementing better asset management as part of good business planning.

5.14 During the year, arrangements were agreed for the Export Credits Guarantee Department (ECGD) to start operating as a Pilot Trading Fund from 6 April 2005 ahead of its establishment as a Statutory Trading Fund in April 2007. Key features of ECGD's new status are a requirement for it to earn only an affordable, rather than a 'commercial', rate of return and for it to operate with greater autonomy.

Future Plans

5.15 Looking to the longer term, SR2004 specifically envisaged that:

- as priority outcomes sought in PSA targets are achieved, where appropriate they will become national standards;
- the number of standards will increase as PSA targets are met and improved performance is maintained; and
- the number of national targets and data flows not directly related to PSAs or national standards will radically reduce.

[2] Performance against the Treasury's own efficiency plan can be found in Annex C of this report.

Objective IX Achieve a high standard of regularity propriety and accountability in public finance

Performance against target

5.16 There is no PSA target relating directly to Objective IX

5.17 The year has seen the launch of a programme of department by department reviews of the effectiveness of financial management in government. The aim of the reviews is to provide objective and professional assessment of departments' priorities and plans for improvement against a common framework. It is intended that all initial departmental reviews will be completed during the course of 2005.

5.18 The year has also seen the successful completion of a 2-year risk management programme with a report to the Prime Minister and agreement for post programme objectives. The review drew on best practice, placing the UK Government among world leaders in this field, and will underpin ongoing work to improve and professionalise financial management in government.

Delivery

5.19 The Government's aim is to achieve world-class standards of financial management in the UK public sector. A key factor in delivering this is the drive to promote improvements in the effectiveness of financial management in government.

5.20 Policy measures in place to secure further improvements in UK public sector financial management include:

- a programme of department by department reviews of effectiveness of financial management;
- developing standards of good practice for corporate governance in central government departments;
- maximising the impact of the risk management agenda;
- strengthening greater financial professional skills through replacing departmental Principal Finance Officers by suitable professional Finance Directors and instituting fast track training for all senior finance post-holders;
- replacement of three Treasury systems for collecting financial data from Departments with a Single Data System;
- 'faster closing' of departmental accounts with the aim, by 2006, of accounts being laid before Parliament by the summer recess; and
- development of Central Government Accounts (CGA), and then Whole of Government Accounts (WGA) covering the whole of the UK public sector.

Achievements

5.21 In line with the commitment in SR2004, department-by-department reviews were embarked on against a common framework of the effectiveness of financial management of government departments, beginning with the biggest departments and working closely with the departments concerned.

5.22 With Treasury support, departments made good progress in appointing professional finance directors. To support their further progress, the Treasury launched, with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Management Accountant (CIMA) two fast track accountancy qualifications for senior staff in all government departments. Importantly, Treasury has been advising departments on options and processes related to succession planning and recruitment.

5.23 Under an interdepartmental steering group, and working closely with risk improvement managers across Whitehall, a two-year programme to improve departments' handling of risk and put in place arrangements to promote further improvements over the next two years, was successfully completed.

5.24 An updated edition of the "Orange Book" was issued on the management of risk and a range of other guidance on risk, including advice prepared with the NAO on handling risks during policy formulation, which was issued by the Prime Minister.

5.25 The Treasury assisted departments in combating fraud, including the publication of the annual fraud report, a major conference with the NAO and a joint guide with the NAO. The Treasury also supported Internal Audit, issuing guidance and running events.

5.26 Departments, with Treasury's support, made further improvements in the quality and timeliness of their resource accounts.

Table 5.1: Resource Accounts

Audit Opinion	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Unqualified*	22	37	43	47	48	50
Qualified*	30	12	9	6	3	2
- Scope limitation	18	9	7	6	2	0
- Adverse Opinion	5	0	0	0	0	0
- Disclaimer	4	3	2	0	1	0
-'Nil' Opinion	3	0	0	0	0	0
TOTAL	**52**	**49**	**52**	**53**	**51**	**52**

* on 'true and fair' grounds

5.27 Treasury's own (unqualified) departmental resource accounts for 2003-04 were presented to Parliament before the 2004 summer recess. Important improvements were made to the quality and timeliness of financial information available to the Treasury Board to manage the department.

5.28 The second "dry-run" CGA was completed, with good feedback from the NAO and production of CGA for 2003-04 is now in progress. Good progress has also been made on developing the additional processes required for the first "dry-run" WGA.

5.29 The Treasury is on track for successful implementation by the end of 2005 of a single data system (COINS) to collect financial information from departments for use by both the Treasury and ONS.

5.30 A significant project has been initiated to bring together the banking operations of the Chancellor's departments, following an earlier successful feasibility study.

5.31 Guidance to departments on propriety and accountability issues has continued to be reviewed and updated and a new guide to Scrutiny of Public Expenditure was issued.

5.32 The Treasury produced the first set of accruals accounts for the NLF and a re-structured set of Consolidated Fund Accounts, both for 2003-04.

5.33 The Treasury's internal audit function provided assurance on control, risk and governance in support of the Treasury's Statement of Internal Control.

Future Plans

5.34 As part of SR2004, this objective was refocussed and will become from 2005-06, 'Achieving world-class standards of financial management in Government'. The main challenges Treasury will face under this wider objective are:

- completing the first round of financial management reviews of departments, identifying common themes, barriers and best practice and ensuring that individual departmental action plans form the basis for future improvements in financial management and that processes are in place to agree and deliver cross-government initiatives for the improvement of resource management;

- assisting departments to pursue the target of professional finance directors on their boards. Developing the necessary financial professional skills in Government;

- delivering a Corporate Governance Code for central government departments and keeping it up to date with good practice. Maintaining momentum in improving departments' ability to handle risk and reviewing the requirements for statements on internal control and improving the scope and coverage of the advice given to departments on combating fraud;

- developing and publishing the new Financial Reporting Manual (FreM) – a principles based manual covering guidance for Departments, Agencies and NDPBs;

- completing the COINS project and establishing, and making progress with, the programme to simplify and strengthen financial management frameworks and processes in Government;

- first publication of CGA and establishing the processes to collect and produce data for the first dry run of WGA;

- letting contracts to all volume retail banking services for the Chancellor's departments and initiating the subsequent heavy programme of transition (a major shared service initiative);

- transferring accounts work to a shared service out of London and substantially reducing the cost of the departmental finance function; and

- further positive impact by Treasury Internal Audit in adding value to the Treasury's risk management, control and governance environment.

6 Managing Ourselves

6.1 The Treasury[1] is the UK's economics and finance ministry, responsible for formulating and implementing the Government's financial and economic policy. The Treasury's aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.

6.2 Activities are focused around: policy development and legislation; setting and monitoring public expenditure allocations and outcome targets; and providing advice and guidance to Ministers.

6.3 The Treasury's vision is to be a world class economics and finance Ministry. To be world class, the Treasury must have the **right scope and functions** to deliver its objectives. It must have **good leadership**, and be **fully staffed by people who have the right skills** and **reflect the society they serve**. It must provide staff with a **supportive working environment**. A world class Treasury must **communicate effectively with the public and Parliament**. It must **deliver its objectives effectively, while improving efficiency**.

Right scope and functions

6.4 The review of the revenue departments and tax policy led by Gus O'Donnell, which reported in March 2004, recognised that if the Treasury was to succeed in its ambition to be a world-class finance ministry, its range and scope of functions and responsibilities needed to reflect its objectives. For this reason it was recommended that responsibility for tax policy be transferred to the Treasury whilst tax policy maintenance should remain with HM Revenue and Customs.

6.5 The Treasury has now implemented the changes in the way it **develops tax policy** that were announced in the O'Donnell review. The transfer of 150 tax policy posts began in summer 2004 and was completed by March 2005.

6.6 The challenge is to generate the improvements in policy-making that should flow from bringing strategic tax work and policy development together and having closer links with the Treasury's productivity and reform agenda and the macroeconomic work.

6.7 Another increasingly important priority for the Treasury is improving financial management in government. In September 2004 the Treasury recruited a new head of Government Financial Management, Mary Keegan. Mary is also Head of the Government Accountancy Service and Finance Director of the Treasury. The first steps in improving financial management in Government have begun with the ongoing Financial Management Reviews.

Good leadership

6.8 The Treasury has continued to develop and **strengthen its strategic management capabilities**. In the summer of 2004, the Treasury reviewed and strengthened its corporate management structure. Strategic management and direction is now provided by the Treasury Board (see Box 1) which meets six times a year. The Treasury increased the number of external members on the Board, with David Varney, the new head of HM Revenue and Customs, John Oughton, the Chief Executive of the Office for Government Commerce, Stella Manzie, the Chief Executive of Coventry City, and William Sargent, the joint

[1] All references to the Treasury in this chapter relate to the core Treasury. It does not include OGC or DMO, whose costs are included in the Treasury group, unless explicitly described. More information on the DMO and OGC, their work and organisation, can be found in Chapter 7 of this report. Information on the financial resources of the Treasury group as a whole can be found in Annex B and the complete picture in the Treasury's Resource Accounts (most recently HC920 for 2003-04 published 19 July 2004).

Chief Executive of Framestore Ltd, joining Sir Peter Gershon on the Board. Michael Ellam, as Director of Policy and Planning also sits on the Board but does not attend for discussions of management or staffing issues.

6.9 The Treasury Board has two sub-committees which meet monthly – the Finance Committee and the Operations Committee. The membership of the committees is made up of Treasury Managing Directors and Directors. These committees are accountable to the Board for financial and operational issues and decisions, and assess financial and operational management information monthly. The committees have been established to bring greater focus and expertise to important decisions on Treasury resource management and operations.

Box 1: The Treasury Board

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

Objectives:

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

Meetings: 6 times per year.

Membership: Permanent Secretary (Chair); Second Permanent Secretary; Managing Directors[2]; Director of Operations; Non-Executive Directors: Stella Manzie, Sir Peter Gershon, David Varney, John Oughton; William Sargent; and Director of Policy and Planning[3].

6.10 **Effective leadership** in the Treasury is vital to deliver objectives, targets and efficiency improvements while leading and managing change to achieve public service reform. The Treasury launched a new **Leadership Development Programme** for the Treasury Senior Civil Service this year, including quarterly leadership events, which provide an opportunity for the leadership group to continue to develop as leaders and shape and drive forward the Treasury's business and change programme. The Treasury seeks to raise organisational leadership capability and performance through customised personal development plans for leaders, and access to a range of development options including feedback, action learning, coaching and skills-based Masterclasses, with a focus on development linked to the Treasury leadership and wider Civil Service leadership requirements now and in the future.

[2] A full list of the Treasury's Managing Directors is available on the organisational chart on page 10

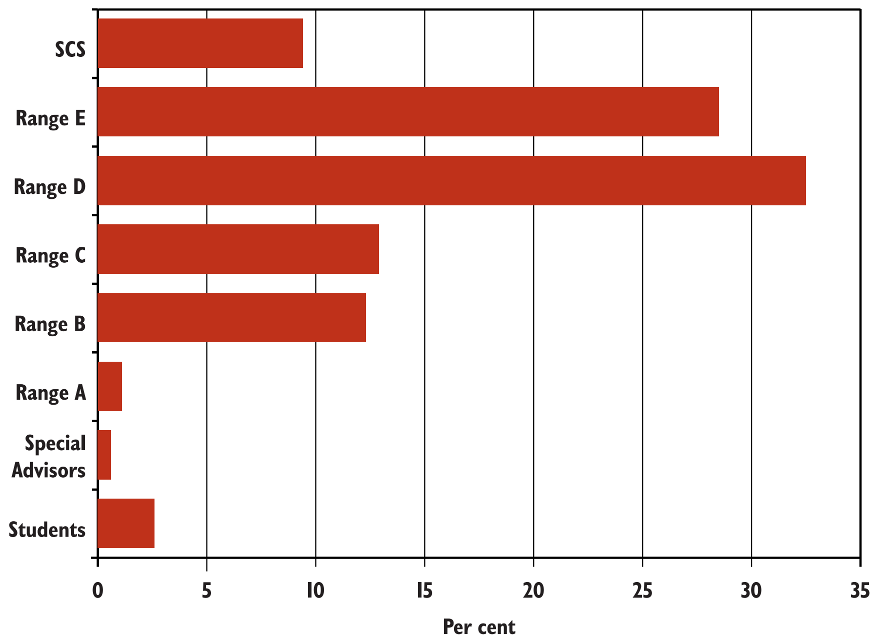
[3] The Director of Policy and Planning does not attend for discussions of management or staffing issues.

Fully staffed with people who have the right skills

6.11 In order to achieve its objectives it is essential that the Treasury is able to attract and retain highly skilled staff able to adapt to a changing environment. At the beginning of 2004, the Treasury was fully staffed following a fall in staff numbers in the late 1990s reflecting high levels of vacancies. There have been two key events during 2004-05 which affect the Treasury's staff numbers[4]. Firstly, the implementation of the O'Donnell review has meant that responsibility for tax policy has transferred to the Treasury – this machinery of government change has resulted in 150 full-time equivalent posts being transferred to the department from HM Revenue & Customs during 2004-05. Secondly, to support the delivery of its efficiency plans, the Treasury has commited to reducing the number of full-time equivalent staff employed in the department by 150 between April 2004 and April 2008[5].

6.12 In the annual business planning round, directorates plan the right mix of staff to meet objectives in the year ahead. The Treasury delivers its objectives primarily by working with and through others, its core business is policy development rather than front line delivery. This is reflected in the Treasury's staffing profile, which does not follow the pyramid structure typically seen in public service delivery departments (Fig 6.1).

Figure 6.1: Staff in Treasury by Range (31st March 2005)



6.13 **The Treasury's Senior Civil Servants** (SCS) are its managers, specialists and policy advisors. The SCS made up approximately 9 per cent of Treasury staff in 2004-05. A further breakdown of the numbers of SCS employed by the Treasury, and their pay bands, is shown in Tables 6.2 (a) and (b).

6.14 The Treasury seeks to employ people with the appropriate knowledge, experience, and qualifications to the role they fulfil. **The Treasury's recruitment procedures** are in accordance with the recruitment code laid down by the Civil Service Commissioners, which is based on the principles of fair and open competition and selection on merit. The necessary systems are in place to ensure that recruitment is based on these principles, and these systems are subject to internal checks. The Treasury's recruitment procedures were internally and externally audited in 2001. Opportunities are advertised widely to encourage people from a range of backgrounds to apply. Treasury recruitment by category in the calendar year 2004 is shown in Table 6.3.

[4]For more information on staff numbers please see tables 6 and 6(a) in Annex B of this report
[5]For more information on the Treasury's efficiency plans please see Annex C of this report

Table 6.2 (a): Treasury Senior Civil Service Pay Bands

Pay band	Pay Range (£) at 1 April 2004 Minimum	Progression target rate	Recruitment & performance ceiling	Number in band
1	53,451	74,298	112,248	99
2	73,762	99,419	155,008	17
3	90,867	129,352	192,424	5

Table 6.2 (b): Treasury Senior Civil Service Pay Bands - Permanent Secretaries

	Pay Range (£) at 1 April 2004 Minimum	Maximum	Number in band
Permanent Secretaries	121,100	256,550	2

Table 6.3: Recruitment during calendar year 2004[5]

Pay Range	Permanent appointments	Fixed term appointments	Permanent transfers/ reinstatements	Secondments in	Casual appointments (& exceptions)	Total
A	1	1	0	0	1	3
B	8	9	0	0	9[6]	26
C	16[7]	0	0	1	7	24
D	33	3	0	3	9	48
E	14	4	0	8	10	36
SCS	2	0	0	1	1	4
Total	74	17	0	13	37	141

6.15 In the calendar year 2004, the Treasury:

- advertised open competitions to fill 8 Senior Civil Service (SCS) posts. The majority of other SCS posts were trawled across other government departments;
- recruited 12 Leading Policy Analysts directly at Range E through an open competition which completed in December 2003[8];
- ran 26 other individual recruitment schemes for a variety of specialist positions (e.g. HR, IT, Accountancy and Finance specialists). 3 of these schemes filled 16 posts during a restructure of the Human Resources function in 2004; and
- 113 extra staff were recruited as part of the new tax policy partnership developed following the O'Donnell review, of which 73 per cent were loaned in from HM Revenue and Customs.

6.16 These successful schemes were additional to internal promotion to meet the department's staffing needs at these levels.

6.17 Table 6.4 illustrates the number of occasions where permitted exceptions to fair and open competition and selection on merit have been used at each level (except for appointments of up to 12 months), by category.

[5]This table excludes 123 staff who were loaned-in from elsewhere within the civil service during 2004, of which 67.5 per cent (83) loaned in to the Budget and Public Finance (BPF) Directorate as a result of HM Revenue & Customs staff being integrated within the Treasury.
[6]Figure excludes 30 student placements (a mixture of 28 sandwich placements and 2 summer placements of various types)
[7]2 Range C's in the permanent category were previously casual employees but secured permanent positions through open competition during 2004
[8]Offers for the Leading Policy Analysts positions were made to candidates at the end of 2003 as a result of the 2003 competition, however 12 candidates had defereed start dates in 2004.

Table 6.4: Exceptions to the Civil Service Commissioners' Recruitment Code 2004-05

Exception Category	Range A	Range B	Range C	Range D	Range E	Senior Civil Service
Extensions of appointment of up to 12 months up to a maximum of 24 months (with reasons)[9]		1	1	2		
Short term appointments where highly specialised skills required[10]					1	
Secondments			1	3	8	1
Extensions to secondments (with reasons)						

6.18 As well as recruiting staff with the appropriate skills, the Treasury is also committed to enabling all its staff to continuously develop and enhance their knowledge skills and experience through its **Learning and Development Strategy**. The Treasury seeks to provide staff with access to relevant and effective development opportunities clearly linked to business objectives, and which enable them to reachh their full potential. Each member of staff has a development plan which is reviewed twice a year and helps them to identify what their development needs are, and what development opportunities would best meet their needs. The Treasury continuously monitors the effectiveness and relevance of its Learning and Development Strategy through assessment of the transfer of skills and knowledge gained by staff as part of the appraisal process, and monitoring overall improvements to organisational efficiency.

6.19 To ensure that staff are fully ready for promotion, the Treasury has initiated a programme of Development Centres which enable staff who are likely to be, or have recently been, promoted to Range E (Grade 7) to identify any development needs.

6.20 The Treasury encourages staff to gain **outisde experience** through secondments to both other government departments and the private sector. 94 per cent of the Treasury Senior Civil Service have experience outside the department (compared with a Whitehall target of 75 per cent), and 75 per cent have experience outside of Whitehall (compared with a target of 65 per cent). In 2004, 52 per cent of all new entrants were loaned or seconded in, and 16 per cent of the total staff in post at the end of 2004 were either on loan or seconded. Similarly 12 per cent of Treasury staff were on loan or seconded out to other organisations[11]. These levels of outgoing and incoming secondments help to encourage new talent and new ideas, while still maintaining the necessary continuity of staff to meet the Treasury's objectives.

Reflect the society we serve

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

6.22 The department has appointed Sir Nicholas Stern as Champion at Board level to ensure the department's aims on diversity are understood at every level and are acted on and delivered by all. Along with other government departments, the Treasury revised its aspirational targets during the 2004 Spending Review to increase the proportion of women, ethnic minorities and people with disabilities in the Senior Civil Service (SCS) to 37 per cent, 4 per cent and 3.2 per cent respectively by 2008. In addition, there is a target for the proportion of woman in top management posts to increase to 30 per cent by 2008.

[9] In 3 cases the extension was permitted because a project or plan of work continued beyond expected timescale. In 1 case the extension was permitted to allow an application for an open competition.
[10] 1 Range E short term appointment was made because the candidate had specialist skills highly suited to the role.
[11] A list of those members of staff currently seconded to the Treasury from outside central Government is available on the Treasury website at http://www.hm-treasury.gov.uk/about/about_secondee.cfm

6.23 Since putting targets in place in 2000, the department has made progress on **increasing the numbers of women at the most senior levels** with women now taking just over one quarter of the Treasury's most senior posts (see Fig. 6.5) and almost 30 per cent of SCS posts overall. In the feeder grades below SCS, almost 40 per cent of staff are female ensuring there is a pipeline of talent to sustain progress. In the Treasury's 2004 staff survey, women's perceptions of working in the department were not significantly different to men's perceptions and were positive in relation to equality and diversity. Many staff, both men and women, take advantage of alternative working patterns and home working which have been embedded into the Treasury's working arrangements for a number of years. In 2004, the Treasury developed support for staff with dependant care responsibilities through adding a family help line and childcare vouchers to existing arrangements that included a holiday play scheme. The additional benefits have been welcomed at all levels in the department and take up, from both men and women, has been good.

6.24 Representation of **ethnic minority staff** in the SCS is 2 per cent. Below the SCS steady progress has been made in increasing the pipeline of talent so that 5 per cent of Range Es and 11.4 per cent of Range Ds are from ethnic minorities. The Treasury has worked with its Ethnic Minority Advisory Group throughout 2004 to raise awareness of different cultural backgrounds and promote cohesion and understanding. In May 2004 the Treasury held a seminar for all staff 'Raising our Sights on Race' which agreed a programme of action on cultural and ethnic minority issues. Results from the 2004 staff attitude survey indicated that perceptions of staff in all racial groups were cohesive and all groups recorded positive perceptions of equality and diversity.

6.25 Just over 1 per cent of SCS staff have recorded themselves as having a disability. The department has worked very closely with our Disability Advisory Group to develop a strategy aimed at **increasing the number of disabled staff** recruited to the department and reducing the barriers for disabled staff in the workplace. The Treasury introduced a number of changes in 2004 including senior level advocates for disabled staff and improved guidance for staff and managers on reasonable adjustments. The approach was recognised as good practice at the 2004 British Diversity Awards when the department was recognised as a Public Service Diversity Champion. The Treasury has set a number of performance indicators for its strategy including disabled staff attitudes and representation and will continue to monitor progress.

6.26 The department monitors a wide range of data on staff in post to help address areas of under-representation (see Table 6.6), as well as monitoring recruitment (see Table 6.7).

Figure 6.5: Percentage of women staff in SCS and Director level

Table 6.6: Treasury Staff Diversity (31st March 2005)

Range A	Women (per cent)	People from minority ethnic background (per cent)	People with Disabilities (per cent)
A	84.1	28.3	39.8
B	69.1	37.1	5.1
C	50.1	32.6	5.6
D	38.5	11.8	3.4
E	37.8	4.7	1.9
F	28.0	1.3	1.3
G	26.0	3.1	0.0
H	20.0	0.0	0.0
TOTAL	**42.3**	**15.2**	**3.5**

Table 6.7: Treasury Recruitment[12] by Gender, Ethnicity and Disability in 2004[13]

Range	Women (per cent)	People from minority ethnic background (per cent)	People with Disabilities (per cent)
A	66.6	0.0	0.0
B	73.1	38.5	3.8
C	55.5	29.6	3.7
D	50.4	8.7	4.3
E	47.0	8.4	1.2
SCS	54.5	0.0	0.0
All recruits	**53.4**	**13.8**	**3.0**

6.27 In addition the Treasury measures staff attitudes of different groups through its annual staff survey and benchmarks its approach to diversity with external best practice. The Treasury took part in the first Stonewall benchmarking exercise in 2004 coming in the top group of employers for gay people.

Supportive working environment

6.28 The Treasury continues to seek to achieve the highest standards in the field of health and safety and the well-being of its staff continues to be a top priority. The department has appointed the Director of Operations as Champion at Board level for occupational health, safety and welfare, reporting annually progress to the Board.

6.29 Accidents to Treasury staff have decreased by 37 per cent compared with 2003, with 13 accidents being reported during 2004. The total number of accidents, including contractor accidents, decreased by 53 per cent to 25 accidents reported. Two accidents and two diagnosis of repetitive strain injury were reported to the Health & Safety Executive.

The network of Occupational Safety, Health & Environment Assistants (OSHEAs), 35 in total, plays an important part in ensuring everyone is working in a safe and healthy environment. The majority of OSHEAs have been trained and carry out first line workstation risk assessments and monthly health and safety tours and inspections.

Communicating effectively with the public and Parliament

6.30 The Treasury has an ongoing commitment to respond to all enquiries in a timely and thorough manner. For example, it continues to set itself demanding performance targets for answering **Parliamentary questions** on time, and raised its internal targets for the 2004-05 session. Table 6.8 illustrates that the Treasury met or exceeded all it targets in the last 2 Parliamentary sessions.

[12] Including loans and secondments in

[13] 23.8 per cent of new recruits did not declare their ethnicity, and 19.3 per cent did not declare whether they have a disability.

Table 6.8: Performance against Parliamentary Questions

	2003-04 session[14]		2004-05 session	
	Target (Per cent)	Outturn (Per cent)	Target (Per cent)	Outturn (Per cent)
Commons Named Day	65	75	70	79
Commons Ordinary	75	80	75	84
Lords	90	97	95	96

6.31 The Treasury aims to respond to at least 80 per cent of all **correspondence** received within 15 working days of receipt. This is a challenging target given the volumes involved: in 2004-05 the correspondence unit handled almost 9,000 letters, 15,000 emails from the general public, and fielded 18,000 telephone calls. Overall performance exceeded the target with 82 per cent of letters received answered within the 15 day.

6.32 The **Freedom of Information Act** (FoI) came into force in January 2005 - the Treasury is committed to meeting it obligations under the Act. It has been a challenging first quarter with a number of substantial requests for wide ranging information covering key events in recent history. As a result of the requests the Treasury has released significant new information. In cases where the information provided is new or of wider interest, it has also been published on the public website.

6.33 Releases include: Classification of Network Rail Accounts; Discussion of independence of monetary policy; IMF loans to Russia in 1998; Tax relief for lower income families; Sterling withdrawal from the ERM; Bank of England Independence; Equitable life; Heavily Indebted Poor Countries; House price projections, and EU membership costs.

6.34 In the 1st quarter of 2005, the Treasury received 277 FoI requests, of which 114 cases (41 per cent) were answered within the 20 day deadline[15]. In total, the Treasury responded to 209 requests within the period, 31 were refused out right under an exemption and a further 45 responses required exemptions for portions of the response. Requestors have subsequently sought internal reviews on 20 responses.

6.35 The Treasury's external **website** was redesigned in the summer of 2004 to further improve the accessibility and user experience. The improvements contributed to an increase in page viewings from 38 million in 2003 to 45 million in 2004. The 2005 Budget received record levels of website traffic-page views increased by 14 per cent compared to Budget 2004, with over half a million pages viewings over the course of Budget day.

Delivering our objectives effectively while improving efficiency

6.36 In order for the Treasury to achieve its aim of being a world class finance Ministry, it must not only deliver its objectives, but deliver them in the most efficient and effective manner. Following the recommendations of the Review of Public Sector Efficiency, led by Sir Peter Gershon, the Treasury group has agreed a target to achieve annual efficiency savings of £17.7 million by 2007-2008 – of this, the 'core' Treasury will deliver £11.9 million of efficiencies, the Office of Government Commerce will deliver £4 million, the Debt Management Office will deliver £1 million, and OGCbuying.solution will deliver £0.8 million.

6.37 The core Treasury seeks to achieve this efficiency target by focusing on four areas:

- policy resources which are better focussed on delivering our objectives and targets;
- a policy resource that is able to respond more flexibly to new priorities;
- high quality, value for money corporate services aligned with the front-line directorates within the organisation; and
- a best practice procurement strategy that delivers value for money.

6.38 Further information on the Treasury groups efficiency plans, and progress towards the target, can be found in Annex C.

[14]The 2003-04 Parliamentary session ran from November 2003 to November 2004, the 2004-05 session from November 2004 to April 2005

[15]Our data monitoring system distinguishes between those requests which were processed within the 20 day statutory deadline and those that weren't but does not yet identify cases where a permitted deadline extension was used. This figure could therefore underestimate the percentage of FOI requests answered 'in time'.

7 EXECUTIVE AGENCIES AND OFFICES

- United Kingdom Debt Management Office
- Office of Government Commerce

UNITED KINGDOM DEBT MANAGEMENT OFFICE

Aims and Objectives

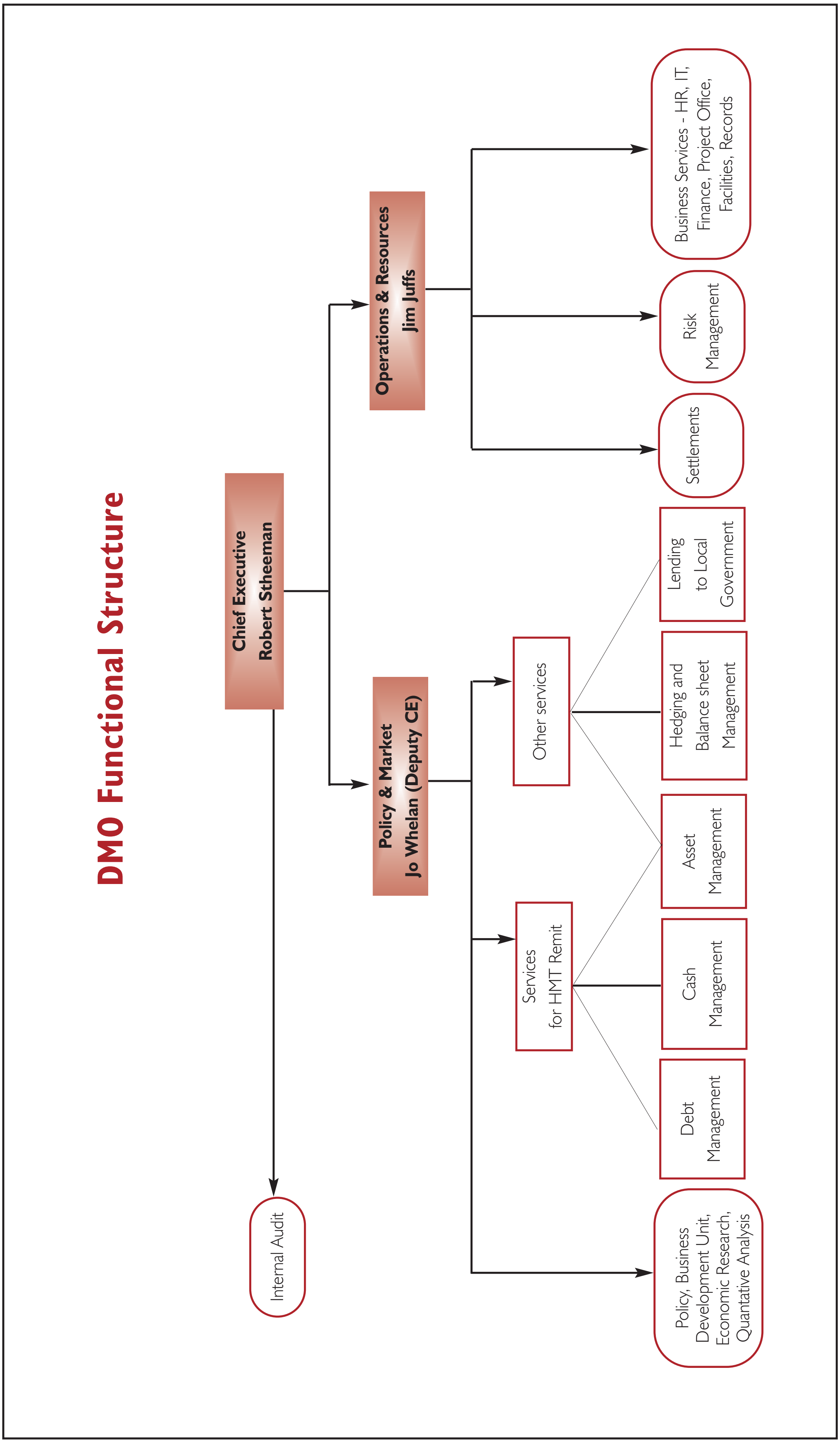
7.1 The UK Debt Management Office (DMO) was established on 1 April 1998 and is an executive agency of the Treasury specialising in the delivery of Treasury management services and related policy advice to central government. The DMO performs these functions with a view to contributing to the Government's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

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

7.3 The DMO has a number of objectives through which it supports the wider Treasury objectives. The DMO's objectives have been refined and simplified going forward for 2005-06, and are detailed, along with the corresponding Treasury objective they support, in Table 7.1. For 2004-05 the DMO has continued to report progress against the previous set of objectives – performance against these is shown in the 'Achievements' section.

Table 7.1: DMO Objectives

	DMO Objective	Treasury Objective
1	To develop, provide advice on and implement HM Government's debt management strategy.	Objective I: Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability.
2	To develop, provide advice on and implement HM Government's cash management requirements.	
3	To advise on the development and implementation of HMT's strategy for managing HM Government's balance sheet to secure sound public finances.	Objective VI: Improve the quality and the cost-effectiveness of public services.
4	To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.	
5	To provide a cost-effective lending service to local authorities through the Public Works Loan Board.	
6	To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.	
7	To manage, operate and develop an appropriate risk and control framework.	


DMO Functional Structure
Chief Executive
Robert Stheeman
Operations & Resources
Jim Juffs
Policy & Market
Jo Whelan (Deputy CE)
Internal Audit
Business Services - HR, IT, Finance, Project Office, Facilities, Records
Risk Management
Settlements
Other services
Services for HMT Remit
Lending to Local Government
Hedging and Balance sheet Management
Asset Management
Cash Management
Debt Management
Policy, Business Development Unit, Economic Research, Quantative Analysis

7.4 In addition to the above, the DMO seeks to support the Treasury's Objectives III: 'Promote efficient, stable and fair financial markets, for their users and the economy', and VII: 'Achieve world-class standards of financial management in government' respectively. The DMO does this by supporting efficiency, stability, fairness and innovation in the financial markets and in working towards best domestic and international practice standards in the way that it delivers its objectives.

Organisational Structure

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

7.6 The Managing Board is the DMO's senior management group, and comprises the Chief Executive, Deputy Chief Executive, Chief Operating Officer and the following non-executive directors[1]: Colin Price, Brian Larkman and, from the Treasury, Sue Owen. Colin Price is also Chairman of the DMO's Audit Committee.

7.7 The Managing Board is supported by a range of internal cross-cutting committees, including the debt strategy, cash strategy, final management, and risk committees.

Achievements

7.8 Full reporting of performance against the DMO's 2004-05 strategic objectives is given in the tables at the end of this chapter.

7.9 The Government operates a highly transparent debt management and issuance regime with auction dates published up to one year in advance - currently the longest period of pre-commitment internationally.

7.10 Gilt sales have been rising steadily over the past few years from £26.3 billion in 2002-03, £49.9 billion in 2003-04 and £50.1 billion in 2004-05.

7.11 Partly as a consequence of this, turnover in the gilts market has risen with average daily turnover up from £8.7 billion in 2002-03 and £11.5 billion in 2003-04 to £12.8 billion in 2004-05.

Future Plans

7.12 The DMO's 2005-06 business plan sets out details of key initiatives on which it intends to focus in the 2005-08 period and has grouped these under the following headings:

- to continue to deliver its core operations and activities to the excellent standard required – which means ensuring that the debt management, cash management, fund management, and PWLB functions, together with the infrastructure teams that support them, continue to deliver their respective objectives to the highest standards;

- to further the development of debt and cash management strategy in particular where this identifies initiatives that may provide cost and risk minimisation benefits for HMG – which covers initiatives such as the introduction of gilts with ultra long maturities and developing further analytical tools and techniques that help inform debt and cash management strategy;

- to improve efficiency and to reduce operational risk where possible – which includes initiatives such as continuing to review and enhance the DMO's business continuity arrangements and business delivery capability; and

- to ensure the core values of the DMO continue to make it an excellent place to work – which includes working towards re-accreditation as Investors in People in 2005-06.

[1] James Barclay was a non-executive member of the DMO's Managing Board up until end March 2005 when his term of office came to an end.

Achievements against 2004-05 strategic objectives

1	**To meet the annual remit set by Treasury Ministers for the sale and purchase of gilts, with high regard to long-term cost minimisation, taking account of risk.**
Commentary	Met The gilt sales target was met through the conduct of 26 outright auctions (sixteen conventional and ten index-linked). Outright sales of £48.0 billion were planned in the Remit for 2004-05, published on 17 March 2004 – the highest level for over 10-years. The sales target was increased to £50.3 billion in the Pre-Budget Report on 2 December 2004 and the expected outturn was increased to £42.9 billion in Budget 2005. Gilt sales in the financial year totalled £50.1 billion. The composition of issuance was £42.1 billion conventional and £8.0 billion index-linked.

2	**To offset, through its market operations, in a cost-effective manner, the expected daily cash flow into or out of the National Loans Fund (NLF); and to manage, in accordance with objectives set by HM Treasury Ministers, any assets and liabilities held on the DMA, and on behalf of clients.**
Commentary	Met-ongoing The stock of Treasury bills rose by £1.2 billion (ending the financial year at £20.5. billion). The stock of Treasury bills had peaked at £27.75 billion in mid-December 2004 to help manage seasonal cash outflows.

3	**To continue to lend to local authorities and collect the repayments; to manage and develop the strategy for the Debt Management Account Deposit Facility (DMADF) and to participate actively in the development of local government finance arrangements.**
Commentary	Met-ongoing Changes were successfully made to the lending arrangements of the Public Works Loan Board to take account of the new system of local government capital finance, which came into effect on 1 April 2004. During the year the Board met its operational performance targets. Debt to the Board represents a Government asset of over £42,000 million. The Debt Management Account Deposit Facility (DMADF), through which a range of Local Authorities can deposit cash with the DMO, was operated successfully throughout the period.

4	**To guide and assist in the formulation of strategy on debt, cash and fund management, including the remit, and to report to Ministers on the DMO's performance against its remit, objectives and targets.**
Commentary	Met-ongoing The DMO contributed specific advice in a number of areas of the 2004-05 remit: • the split between index-linked and conventional gilts, and within conventionals the maturity split between shorts, medium and longs; • the size and timing of auctions; • the split between an increase in the Treasury bill stock and a run-down in the DMO's net cash position as elements of short-term debt financing; and • the range of contingencies to be implemented in the event of changes to the Government's financing requirement. The DMO also contributed substantially to preparation of the 'Debt & Reserves Management Report 2004-05'. The DMO reported performance against its remit to the Treasury on a monthly basis, and on developments in the gilts portfolio and compliance against its published targets on a quarterly basis.

5	**To participate pro-actively in the development of strategy for managing the Government's balance sheet and accordingly to contribute to and help develop solutions for financial cost-effectiveness and risk reduction, including by developing partnerships with other parts of the public sector and by providing advice and expertise to other Government departments (and other governments), as required.**
Commentary	Met-ongoing On 2 December 2004 the DMO launched a consultation paper on issuance of ultra-long gilt instruments following calls from the pension fund and insurance industries regarding the lack of supply of longer-dated (and index-linked) assets. The DMO sought formal feedback to assess the size and nature of the demand to inform decisions ahead of Remit 2005-06. The deadline for responses was 21 January 2005 and the outcome of the consultation was published with Budget 2005. In December 2004 the DMO and the Treasury ensured the successful migration of the gilts registration function from the Bank of England's Registrars Department to Computershare Investor Services PLC. Throughout the year, the DMO has continued to work with National Savings & Investments in their programme of Guaranteed Equity Bond issuance, by executing equity index swaps to hedge the Government's exposure to movements in the FTSE-100. The gilt portfolio *cost-at-risk* modelling, which aims at developing a simulation model that can be used to quantify the long-term cost-risk trade-off involved in financing the government debt management, has been developed further.

6	**To resource, staff and manage the DMO to deliver its objectives efficiently, cost-effectively and professionally, ensuring value for money is achieved in the office's administrative expenditure.**
Commentary	Met-ongoing From March 2004 a new board level committee was introduced - with the creation of the Managing Board. As an accredited 'Investor in People' the DMO has continued to support the training and development of staff to achieve organisational objectives, including support for professional qualifications and the development of a corporate training programme.

7	**To develop and maintain appropriate management, information and risk control systems (including procedures to combat potential money laundering); to ensure full and accurate presentation of, and where appropriate facilitate access to, financial, accounting and other information; to ensure accuracy of all DMO publications including its websites and to manage stakeholder relationships fairly and appropriately.**
Commentary	Met-ongoing The DMO continues to meet this wide-ranging objective with the aim of supporting the Accounting Officer and the Managing Board in the effective stewardship of the agency. Among the routine and non-routine initiatives delivered this year are: • implementing a project to enhance its quantitative risk analysis capability; • introducing an extension to the 'Approved Group' for users of the DMO Gilt Purchase and Sale Service ready for its launch in December 2004; and • publishing: the Annual Report of the Public Works Loan Board in June 2004; and the audited DMA accounts and administrative accounts for 2003-04 on 21 July 2004. The DMO has comissioned an automated reporting system and data warehouse for its website www.dmo.gov.uk. It is anticipated that it will be launched in the second half of 2005.

OFFICE OF GOVERNMENT COMMERCE

7.13 OGC is an independent office of the Treasury with its own Chief Executive appointed at Permanent Secretary level, who reports directly to the Chief Secretary to the Treasury. To reinforce the nature of its cross-departmental function and purpose, and to give strategic direction, OGC has a Supervisory Board, of which the Chief Secretary is the Chair. The Supervisory Board is made up of Permanent Secretaries, including OGC Chief Executive, the Head of the National Audit Office and senior external representatives.

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

Aims and Objectives

7.15 OGC has identified three key areas of work covering the period 2005-06 to 2007-08:

- to improve public services by working with departments to help them meet their efficiency targets amounting to £21.5 billion a year by 2007-08;
- to deliver a further £3 billion saving by 2007-08 in central government civil procurement (building on the savings achieved since 2000) through improvements in the success of programmes and projects and through other commercial initiatives; and
- to improve the success rate of mission critical projects.

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

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

7.18 OGCbuying.solutions operates through a series of Catalist framework agreements and Managed Services.

7.19 The Catalist framework agreements include:

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

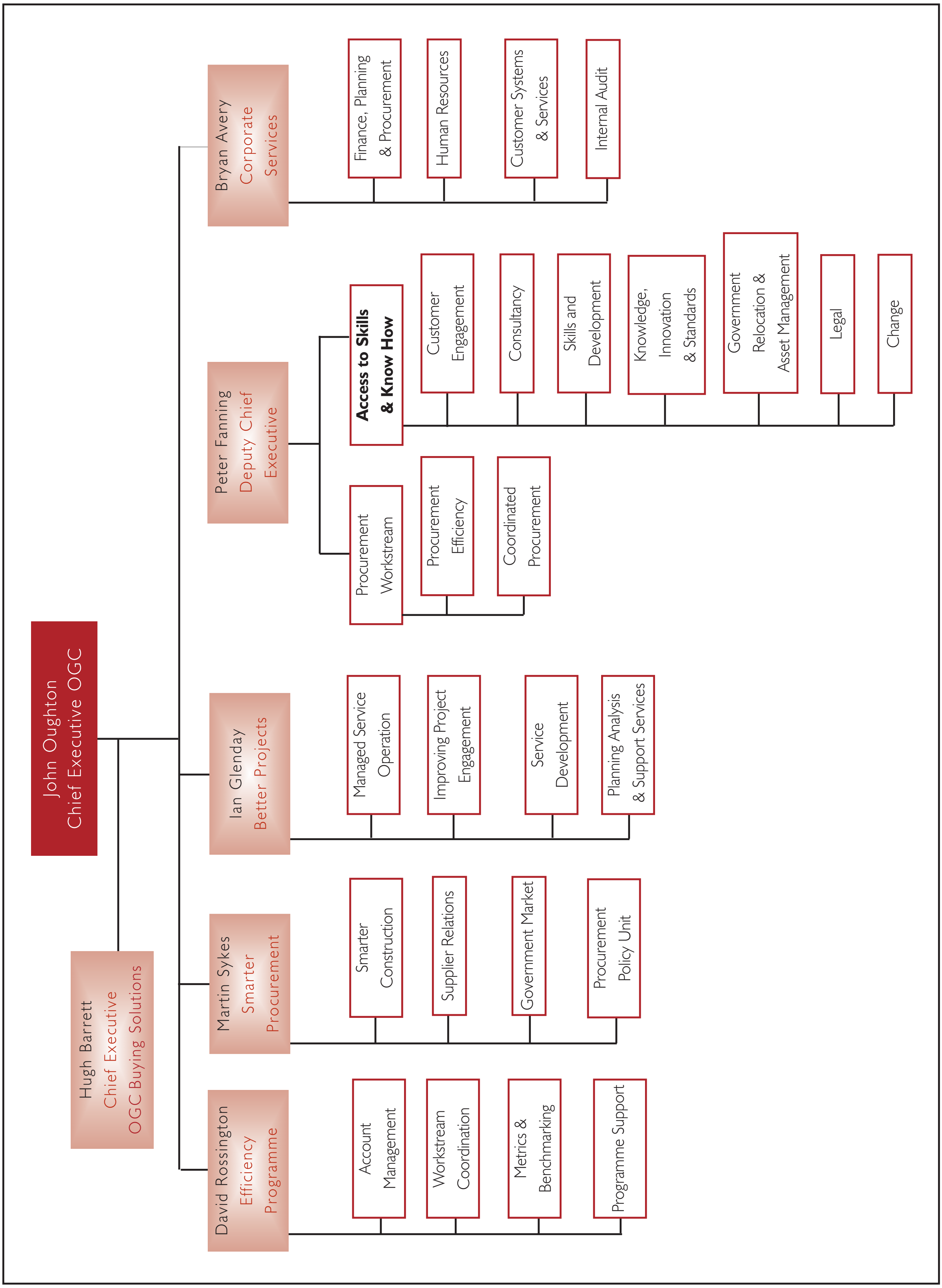
Managed Services include;

- Managed Telecommunications Services;
- Energy; and
- Government Secure intranet (GSi).

Further information on OGCbuying.solutions is available on its website[2].

[2] http://www.ogcbuyingsolutions.gov.uk/default.asp

OGC STRUCTURE



Achievements

7.20 OGC has a track record of success. Working with departments, OGC delivered value for money gains of £1.6 billion in its first three years, against a Public Service Agreement target of £1 billion.

7.21 Following this success, the Government set a target of £3 billion gains for the period 2003-04 to 2005-06, and OGC has already reported £2 billion gains in the first year – well on the way to achieving and exceeding the £3 billion.

7.22 OGC also has responsibility to drive forward and coordinate delivery of over £20 billion efficiency gains by the end of the SR2004 period. Departments have been developing their own delivery plans for implementing their efficiency programmes and on the basis of these have produced Efficiency Technical Notes that were published on the Treasury and departmental websites at the end of October 2004. As announced in the 2005 Budget, £2 billion of efficiency gains were delivered in 2004-05, even before the programme had gotten fully underway in April 2005.

7.23 OGC is developing support for departments to assist implementation of the Efficiency Review. For example, support is available on procurement and on relocation of public sector posts outside London and the South East.

7.24 OGC's other achievements to date include:

- following the introduction of the Gateway process, delivering over 900 reviews covering more than 500 public sector projects and programmes;
- working with departments to implement specific actions to increase the success rate of IT projects and of acquisition projects – with emphasis on mission critical projects;
- taking a lead on the negotiation of collaborative deals for government; in initiatives on capacity and competition in major markets; and in developing opportunities for small and medium sized enterprises in the government procurement market;
- working with all key departments, their agencies and NDPBs to establish Centres of Excellence in Programme and Project delivery and reporting on progress to the Prime Minister;
- working with the Cabinet Office to develop standards in Programme and Project Management and on group membership of the PPM specialism. At the end of 2004-05 there were more than 2,300 individual members of the specialism;
- production of a second version of the Decision Map for Project Strategy and Procurement, including guidance on commercial principles for IT and two downloadable IT model contracts;
- work on the First Kelly Market (the Construction sector) has made excellent progress, including consulting closely with departments and industry; and
- case studies on Market Creation (situations where the public sector has been required to create or stimulate markets) have been published on OGC website[3].

[3]www.ogc.gov.uk

PERFORMANCE AGAINST KEY PRIORITY TARGETS 2004-05

OGC set 7 Key Priority Outcomes for the SR2002 period. The table below represents a statement of progress against each Key Priority at the end of the second year of a three-year measurement period.

Key Priority 1	**Develop and manage the Gateway process**
	1.1 All central civil Government departments, Agencies and NDPBs have embedded Gateway by March 2006 at the latest.
Commentary	On course A total of 130 departments, Agencies and NDPBs have had a Gateway review of their medium or high risk projects/programmes. Delegation of medium risk reviews is underway.

Key Priority 2	**Improve the commercial skills available to departments**
	2.1 Halve the incidence of skills being mentioned as an issue in the successful delivery of projects and programmes. 2.2 The gap between the value placed on commercial skills (including delivery skills) and policy skills has been significantly narrowed.
Commentary	2.1 On Course Skills being raised through growing membership of the Project and Programme Management specialism, including Senior Civil Service level membership. It is too early to make a full assessment of the impact of this on outcome 2.1, which will draw on the Gateway process. Work on developing capacity and capability within PPM has also been taken forward as an integral part of the Embedding Centres of Excellence Programme. 2.1 On Course OGC is working closely with Cabinet Office on the Professional Skills for Government initiative. Joint products for training are being developed. A Senior Responsible Owner (SRO) development needs analysis has been undertaken and development path recommendations will be published for departments.

Key Priority 3	Improve Government ability to manage supplier relationships
	3.1 Departments to take full account of wider central government commercial objectives when considering departmental procurement. **3.2** A better-informed dialogue between central civil Government and suppliers has been established by sharing information and building greater understanding of key issues.
Commentary	**3.1 On Course** Departments and the wider public sector bodies have become increasingly aware of the benefits of sharing commercial intelligence, including supplier performance information, across the Government procurement community, using OGC Supplier Relations as an intelligence hub. OGC Supplier Relations has provided market intelligence to a variety of contracting authorities across the public sector and is developing ways of enabling easier community access to information. **3.2 On Course** Strategic relationships with all key suppliers to central civil Government are well established. Knowledge and understanding of these suppliers is well developed. Key supplier and market information is shared across Departments and increasingly across wider public sector on request, as well as formally through the OGC Supervisory Board. A number of supplier specific fora have been established for users across the public sector. These complement the work of the Senior IT Forum and the Professional Services Forum. Dialogue has also been established with a number of representative bodies in the construction / FM sector.

Key Priority 4	**Make the Government marketplace more attractive to suppliers in all sectors**
	4.1 More effective competition through removal of barriers (includes simplified prequalification and tendering processes for SMEs and other suppliers, faster procurement and significant take up of e-commerce). 4.2 Adoption of a systematic approach to the major markets within which the public sector operates and to promote more effective competition.
Commentary	3.1 On Course Significant progress has been made on reducing the barriers to participation in the government marketplace. The very successful West Midlands SME Procurement Pilot Project ended in June 2004. This was set up to test in a controlled manner, several of the recommendations from the Better Regulation Task Force (BRTF) and Small Business Council (SBC) report 'Government: Supporter and Customer?' published in May 2003[4]. At the start of the pilot 14 per cent of SMEs had successfully tendered for government contracts. Of contracts awarded through the pilot portal as at June 2004, 26 per cent had been won by pilot SMEs. The findings of the Pilot project have led to a number of projects which will implement, on a national basis, many of the recommendations, including a national opportunities portal, simplified pre-qualification questionnaire, SME/Procurer training and improved supply chain management. Good progress has also been made in implementing the recommendations from the Regulatory Impact Unit Report 'Making a Difference – Reducing Bureaucracy in Central Civil Government Procurement'[5] and a Faster Procurement study process has been published on the OGC website. 3.2 On Course At a strategic level the Kelly Report 'Increasing competition and improving long term capacity planning in the Government Market place' is being implemented. The first Kelly Market – the construction sector- is nearing completion and a set of robust results and proposals have been produced which will set the framework for ensuring better competition and capacity management across the public sector. The Kelly programme is moving on to focus on the second market, which is waste management. Progress against an eProcurement savings target of £250m for SR02 is measured annually. Savings of £57.8m were achieved in Year 1 (2003/04) and it is anticipated that departments will meet this target.

Key Priority 5	**Develop innovative tools and techniques and more effective ways of achieving private sector involvement**
	5.1 Willing adoption and skilled use of OGC approved contract tools/arrangements by all central civil Government departments, including use of the 3 preferred techniques in construction, and of appropriate approaches for IT contracting.
Commentary	On Course Regular awareness events held and good qualitative and quantitative feedback received. Consultation and events have resulted in requests for further events and specific advice on new projects and programmes. New guidance includes new key commercial principles for IT projects and model IT contracts. There is evidence of healthy growth in the number of website downloads of the Decision Map (4,000-8,000 per month).

[4]www.brf.gov.uk/reports/smeprocurement.asp
[5]www.cabinetoffice.gov.uk/regulation/documents/pst/pdf/ccgpsumtext.pdf

Key Priority 6	**Help departments to embed best practice (including operational guidance) and cross-government lessons learned in their commercial activities**
	6.1 For mission critical, highly desirable and/or high and medium risk IT enabled projects, at least a 70 per cent success rate in projects being on time, on budget and fit for purpose. 6.2 The current published Achieving Excellence (AE) targets to be achieved.
Commentary	6.1 Slippage Early evidence suggests a mixed picture, and until further data is collected it is not possible to say this is yet on course. Intervention, support and data will focus increasingly on mission critical projects. 6.2 Not yet assessed This target has yet to be fully assessed (annual measurement; outcome not yet available). However, there appears to be good progress on time and budget and with customer satisfaction, and rather less so with reduction in defects and faster procurement. The NAO report 'Improving Public Services Through Better Construction'[6], published in March 2005, found that while departments have some way still to go in meeting the AE targets, based on the data currently available, they appear to have achieved considerable improvement in the delivery of their construction projects against the 1999 baseline.

Key Priority 7	**Catalyse collaborative opportunities (including aggregation deals)**
	7.1 Central civil Government departments sharing information on procurement plans and the prices paid. 7.2 Significant increase in collaborative purchasing with collaborative arrangements to be considered as the first option where value for money benefits are possible.
Commentary	7.1 On course Zanzibar electronic marketplace contract negotiations are still ongoing and a decision is hoped to be reached during June 2005. Zanzibar will enable departments to have access to other departments procurements and contracts. Proof-of-concept pilot carried out by the Efficiency Programme's Procurement Workstream to demonstrate the use of price benchmarking for commodity goods and services. 7.2 On course This outcome is well on track to be fully met through significant increases in public sector spend (both central civil government and the wider public sector) made primarily through OGCbuying.solutions arrangements over the SR2002 period. The real increase in activity (customer spend through collaborative arrangements) and the associated savings that have been achieved or projected are:

£ million	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Actual customer spend	1135	1841	2000	3000
Savings	163	241	300	400

[6]Available on the NAO's website at: http://www.nao.org.uk/publications/workinprogress/better_construction.htm

Futre Plans

7.25 Since its creation in 2000, OGC has worked with and through Government departments to deliver substantial advances and improvements in procurement and programme and project management. Following the Government's 2004 Spending Review, OGC's remit has been extended to the whole of the public sector, including local government, education, the health service and the police. OGC will lead on developing a culture of improvement within the public sector. It will work with representatives of all customer groups and directly with some big customers (eg County Councils) to ensure that expertise and experience can be targeted to achieve improved efficiency and delivery for all parts of the public sector. For example, facilitating a more joined-up approach both to procurement demands and to supply markets that will result in better deals and improved value for money; in supply, continuing to promote a level playing field for small and medium-sized enterprises.

7.26 As well as coordinating and leading the Government's efficiency programme, and ensuring that resources are released to the front line, OGC has direct responsibility for the key area of procurement efficiency, which has a separate target of £7.2 billion savings. OGC also leads on the implementation of Sir Michael Lyons' report on relocating civil servants away from London and the South East, and is involved in the implementation of Sir Michael's report on asset management. OGC is developing measurement methodology to enable accurate and complete reporting against its key targets.

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

7.28 OGC will adopt a tailored approach to customer organisations and groups, using customer engagement plans to agree the services and support which will provide added value, and enable them to achieve their own targets. It will continue to communicate with customers, using a range of media which suits the needs of customers and stakeholders, including an improved web presence.

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

A1 PERFORMANCE AGAINST 2002 SPENDING REVIEW AND 2000 SPENDING REVIEW PSA AND SDA TARGETS

	This PSA target refers directly to the Treasury's overall aim to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.
SR2002 PSA Target	1 Demonstrate progress by 2004 on the Government's long-term objective of raising the rate of trend growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.
SDA Targets	B1.1 By setting a stable and prudent macroeconomic framework, which fosters economic stability and reduces the variability of output and inflation; and by designing evidence-based policies to support sustainable increases in productivity growth and the employment rate. B1.2 By ensuring that fiscal projections and policy decisions are based on considered economic forecasts underpinned by expert assessment of economic developments, including trend growth and productivity; and using forecasts as a baseline against which to weigh up the risks to macroeconomic stability.
Performance Indicator	Trend rate of output (excluding oil and gas extraction) growth over the last complete economic cycle. Source: Trend growth estimates made by HM Treasury based on Office for National Statistics data.
Commentary	**On course** The measure of HM Treasury's performance in meeting this target is the estimate of the rate of trend out put growth over the current economic cycle. The measure uses growth in actual real non-oil output (Gross Value Added (GVA)). However, the trend cannot be fully determined until the current cycle is completed. Nevertheless, the average rate of growth of non-oil output so far during the present cycle becomes a more relevant indicator as the end of the cycle draws closer. The present cycle commenced in mid-1999, and the end of the cycle is expected to occur around the end of 2005[1]. From mid-1999 growth in actual l real non-oil output has so far (to 2005Q1) averaged 2.7 per cent a year. The Treasury judges that the economy in 2005Q1 was below trend, implying some further period of above trend growth to get back to trend. Hence the growth in actual real output from mid-1999 to when the economy returns to trend, and the cycle ends, is likely to be at least 2.7 per cent and the target met comfortably. Until the current cycle has ended it is also relevant to report on trend growth over the recent past, currently measured by real non-oil output (GVA) growth over the last one and a half economic cycles - from 1997H1 to 2001Q3. Over this period, trend growth is estimated at just over 3 per cent per annum, compared to 2.6 per cent over the previous cycle (1986Q2 to 1997H1).
Quality of data systems	All the underlying data used in the trend growth calculations are sourced from the Office for National Statistics (ONS).

[1]Page 226, Budget 2005, HM Treasury

SR2002 Objective	(I)	Maintain a stable macroeconomic framework with low inflation.
SR2002 PSA Target	2	Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Bank of England's Monetary Policy Committee (currently 2 per cent for the 12 month increase in the Consumer Prices Index (CPI)).
SDA Targets	B2.1	By setting clear, long term policy objectives.
	B2.2	By following predictable, well-understood procedural rules for fiscal and monetary policy making and ensuring the two are co-ordinated effectively.
Performance Indicator	12 month increase in the CPI. The CPI is a measure of the change in the level of prices charged for consumer goods and services. It is constructed on a harmonised basis for all EU Member States. The common European standard is known as the Harmonised Index of Consumer Prices (HICP) and the CPI is the UK's measure.	
Commentary	**Met-ongoing*** From April 2004 to end-March 2005, CPI inflation has been in the range 1.1 to 1.9 per cent. The remit of the Monetary Policy Committee sets a symmetric inflation target, in which an undershooting of inflation is taken as seriously as an overshooting. Since the CPI target was introduced in December 2003, inflation has averaged 1.4 per cent, and not deviated outside the threshold of 1 per cent above or below the target which would trigger an open letter from the Governor of the Bank of England to the Chancellor.	
Quality of data systems	The CPI data are sourced from the Office of National Statistics.	

SR2002 Objective	(II)	Maintain sound public finances in accordance with the Code for Fiscal Stability.
SR2002 PSA Target	3	Over this economic cycle, maintain: public sector net debt below 40 per cent of GDP; and the current budget in balance or surplus.
SDA Targets	B3.1	By planning and controlling public expenditure within firm overall spending limits and revenues to meet the fiscal rules.
	B3.2	By continuously monitoring the state of the public finances to ensure that any risks to the target are identified as soon as they emerge, and by regularly updating, and publishing forecasts of government revenues and spending in accordance with the provisions of the Code for Fiscal Stability, including cautious assumptions audited by the National Audit Office (NAO).
Performance Indicator	Public sector net debt as a percentage of Gross Domestic Product (GDP) at the end of each year of the economic cycle. The average surplus on current budget as a percentage of GDP over the economic cycle.	
Commentary	**On course** Public sector net debt was 34.5 per cent of GDP in 2004-05, and is projected to remain low over the next five years. At the end of 2005-06, net debt is projected to be 35.5 per cent of GDP – £57 billion below the 40 per cent ceiling set in the sustainable investment rule. The Budget projections show that the Government is meeting the golden rule, on the basis of cautious assumptions, with an average annual surplus on the current budget over the current economic cycle of around 0.1 per cent of GDP. There is a margin against the Golden Rule of £6 billion in this cycle, including the Annually Managed Expenditure (AME) margin.	
Quality of data systems	Underlying data sourced from the Office of National Statistics.	

SR2002 Objective	(III)	Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.
SR2002 PSA Target	4 – Part I:	Promote increased global prosperity and social justice by working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards.
SDA Target	B4.1	By working with the IMF and others to promote and implement: open trade systems; measures to tackle abuses of the financial system; transparent surveillance of country policies and performance; adherence to internationally agreed codes and standards; and crisis resolution mechanisms.
Performance Indicator	The International Monetary Fund (IMF) assess member countries' compliance with internationally agreed codes and standards through production of Reports on the Observance of Standards and Codes (ROSCs).	
Commentary	**On course** As of the end of December 2004 (the latest available data), the total number of countries that have completed at least one ROSC module was 114 (compared with 109 in June 2004). This means that 62 per cent of IMF member countries have now completed at least one module. The total number of ROSC modules undertaken as of the end of December 2004 was 615, with 456 (74 per cent) having been published. This compares with 561 modules undertaken as of June 2004, with 402 (72 per cent) published.	
Quality of data systems	The IMF provides information on the number of ROSCs completed. Further information is available from their website[2].	

[2] www.imf.org

SR2002 Objective	(III)	Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.
SR2002 PSA Target	4 – Part 2:	Promote increased global prosperity and social justice by ensuring that three-quarters of all eligible HIPC countries committed to poverty reduction receive irrevocable debt relief by 2006 and working with international partners to make progress towards the United Nations 2015 Millennium Development Goals (joint target with the Department for International Development).
SDA Targets	B4.2	By working with DFID and other partners to maximise the number of HIPCs that benefit from debt relief by 2006, through: helping HIPCs put in place and implement effective and sustainable poverty reduction strategies and encouraging donors to ensure that HIPC provides a sustainable exit from debt. In particular, working with others to ensure that three quarters of all eligible HIPC countries receive irrevocable debt relief by 2006.
Performance Indicator	HIPC:	Number of countries reaching Completion Point as recorded in 'Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation', available on the World Bank website[3].
	MDG:	The Treasury and DfID have a set of discrete indicators against which we progress is monitored these are detailed in the Technical Note[4].
Commentary		**HIPC: On course** Most participating countries are now making steady progress towards their Poverty Reduction Strategy Papers (PRSPs) – an essential precursor to receiving HIPC relief - and a rise in countries graduating from HIPC is expected over the next two years. The Treasury's estimate, which is in line with that of the International Monetary Fund (IMF) and World Bank, is that almost all 27 countries currently receiving debt relief should have exited the initiative by the end of 2006. Progress in countries reaching Completion Point in the HIPC Initiative has not been as rapid as previously projected by the IMF and World Bank. This is partly due to the PRSP process taking much longer than the International Financial Institutions estimated. **Millennium Development Goals: Slippage** The United Nations Department of Economic and Social Affairs has the remit to report annually on global progress towards the Millennium Development Goals (MDGs). The Treasury uses these annual reports in the context of the PSA target relating to the MDGs. The most recent report was issued in August 2004. Good progress has been made in some countries - for example on income poverty in Asia, and primary education in North Africa - but the global rate of progress remains too slow and uneven and in some cases countries are even moving further away from the goals. There is a need for improved policies in both rich and poor countries, and for more and better quality aid to meet the MDGs by 2015. The UK has proposed an International Finance Facility to increase aid significantly. The Commission for Africa agree that at least an additional $50 billion will be required annually to meet the MDGs, with at least $25 billion for Africa. The EU has committed to provide approximately an additional $40 billion by 2010. Further work is needed to spell out the financing mechanisms to deliver this $40 billion, including the International Finance Facility, and to encourage other donors to provide their share of the increase required.
Quality of data systems		**HIPC element**: 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. **MDGs element**: The data used in assessing progress towards the MDGs are taken from the United Nations.

[3]http://www.worldbank.org/hipc/progress-to-date/progress-to-date.html
[4]http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/publicservice_performance/pss_perf_technote02.cfm

SR2002 Objective	(III) Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.
SR2002 PSA Target	4 – Part 3: Promote increased global prosperity and social justice by demonstrating progress towards the Lisbon goals by 2006, by working with our European Union partners to achieve structural economic reform in Europe.
SDA Targets	B4.4 By maximising the economic benefits from enlargement and the Single Market. B4.5 By creating and maintaining pressure for the EU to take effective actions on competition, enterprise, innovation, skills and investment to increase private and public sector productivity and to implement measures to raise employment towards the Lisbon and Stockholm targets. B4.7 By working with other government departments (especially the Foreign and Commonwealth Office), EU member states, the Commission and the EP towards improving the effectiveness of EC development assistance (joint with the Department for International Development). B4.8 By working with other departments towards the achievement of the agreed target for EU average aid to reach 0.39 per cent by 2006 and the promotion of greater aid effectiveness among donors.
Performance Indicator	Progress is measured using Eurostat data for the total EU employment rate (against an EU target of 67 per cent by 2005 and 70 per cent by 2010) and the percentage difference between US and EU labour productivity per hour and per worker.
Commentary	**Slippage** The EU is at the halfway stage of the Lisbon strategy and enlargement has seen it expand to 25 Member States. Since the Lisbon strategy was launched, important steps have been taken to reform the European economy, through modernisation of the EU competition regime, reform of the state aid rules, progress on regulatory reform, and actions in Member States to promote enterprise and employment. Nonetheless, the pace of reform must now be accelerated if an enlarged EU is to meet the Lisbon goals. EU employment stood at 63.3 per cent in 2004 (EU25), little increased over the previous three years; and the productivity gap between the EU and the US had widened to 27 per cent in 2002 (EU15) on a per worker basis from 25 per cent in 1999 and to 11 per cent (EU15) on a per hour basis from 8 per cent in 1999. The Treasury will continue to work with other Member States and the European institutions to promote structural economic reform in Europe, including during the UK Presidency of the EU in 2005 and building on the Six Presidencies Initiative for regulatory reform launched in December 2004 and the March 2005 spring European Council conclusions. An assessment of progress and the Government's priorities on the economic reform agenda were set out in 'Growth and opportunity: prioritising economic reform in Europe[5] and 'Long-term global economic challenges and opportunities for Europe'[6] , both published by the Treasury in 2005.
Quality of data systems	Measurement of progress uses the set of structural indicators produced, maintained and developed by Eurostat, and mandated by the Council of the European Union. The data for the productivity and employment measures used for this PSA target are sourced from the Eurostat structural indicators data base. EU25 data is not currently available for both productivity measures. Outturn data is subject to a time due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication. Methodological changes in 2004 have seen the a step change in both measures of productivity data.

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

SR2002 Objective	(IV)	Increasing the productivity of the economy.
SR2002 PSA Target	5	Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany (joint target with the Department for Trade and Industry).
SDA Targets	B5.1	By bringing forward a continuing programme of microeconomic reform targeted at the five drivers of productivity performance.
	B5.2	By ensuring that new and previous reforms are successfully implemented and delivered.
	B5.3	By working with departments to reform the public services to improve performance and productivity.
Performance Indicator		Performance is measured using: • international comparisons of productivity (ICP) data: output per worker and output per hour. The data are produced by the Office for National Statistics (ONS) based on Organisation for Economic Co-operation and Development (OECD) data; and • trend productivity growth in the UK over the economic cycle, which is taken from the HM Treasury estimates published in the Budget and Pre-Budget Report.
Commentary		**On course** Improving productivity is a long-term objective. Given the sensitivity of the headline productivity figures to cyclical change, UK performance is assessed between points where the economy is assessed to have been on trend, as defined in the Trend Growth estimate (see quality of data systems). The most recent ONS figures show: • the UK has made clear progress in narrowing the productivity gap with its major competitors. The output per worker gap with France has narrowed to 10 per cent from 22 per cent in 1995. Despite a slight widening in 2003, the gap with the US has narrowed to 25 per cent from 30 per cent over the same period, and the productivity gap with Germany closed in 2001; and • between 1997 and 2001, the UK trend rate of actual productivity growth is estimated at 2.5 per cent a year, compared with a growth rate of 2.0 per cent a year in the previous economic cycle. Adjusting for the effect of employment growth, it is estimated that the underlying trend rate of productivity growth was 2.7 per cent between (1997H1-2001Q3) compared to 2.2 per cent over the previous economic cycle (1986Q2-1997H1). Several initiatives have been announced in the 2004 Spending Review, 2004 Pre-Budget Report and 2005 Budget which will help to further drive productivity across the UK.
Quality of data systems		The Treasury monitors progress on the productivity gap with data published by the Office for National Statistics on the International Comparisons of Productivity[7] (ICP) which are themselves based on OECD data. Small changes in the ICP series are interpreted cautiously to allow for some margin of error in the constituent parts. Trend estimates of productivity are drawn from Treasury estimates (see Budget 2005 Table B2) that constitute part of the trend growth estimate. The methodology upon which these estimates are based is set out in the Treasury publication 'Trend Growth: Recent Developments and Prospects, April 2002[8]. The National Audit Office audits this methodology.

[7]http://www.nationalstatistics.gov.uk/cci/nugget.asp?id=161
[8]available on the Treasury website at:: http://www.hm-treasury.gov.uk/media/D6678/ACF521.pdf

SR2002 Objective	(IV)	Increasing the productivity of the economy.
SR2002 PSA Target	6	Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006 (joint target with the Office for the Deputy Prime Minister and the Department for Trade and Industry).
SDA Targets	B6.1	By furthering cross-departmental research to identify the causes of regional disparities and the most effective policy measures for reducing such disparities.
	B6.2	By generating relevant information on regional priorities and on the regional impacts of departmental policies.
	B6.3	By giving a regional focus to the outcomes of future Budget and Spending Review processes, using information on regional priorities, on regional impacts of departmental activities, and on the most effective policy measures, including the scope for further devolution and decentralisation, for addressing regional disparities.
	B6.4	By continuing to foster strong regional institutions, maximising their freedom and flexibility to deliver their own solutions at local level.
Performance Indicator	The headline measure is the trend rate of growth in Gross Value Added (GVA) per head for each region. The Treasury also uses a range of supporting indicators, including business surveys, employment statistics, and VAT registrations to monitor performance. More information on these indicators can be found on the Regional Co-ordination Unit website[9].	
Commentary	**On course** A full assessment of trends in regional economic activity and disparities cannot be fully determined until the current economc cyle is complete. However, the evidence so far is encouraging: • in 2003 (the last year we have data for) the six under-performing regions had nominal GVA growth rates of between 5.3 per cent and 5.5 per cent; and • all regions of the UK grew in 2003 (between 2.4 per cent and 5.5 per cent). In addition to the GVA data there is other encouraging evidence. In particular, unemployment is decreasing and employment rates are up in the North; the North, Midlands and South West all saw increases in business start up rates; and general entrepreneunial acitivity has risen and the number of pupils with 5+ GCSEs increased in all regions.	
Quality of data systems	Performance against this target is measured through estimates of the trend rate of growth in GVA per head in each region for the period 2003-08. The gap in growth rates is measured by comparing the average growth rate of regions that currently have above average GVA per head with the average growth rate of regions that currently have below average GVA per head. GVA is a national statistic.	

[9]http://www.rcu.gov.u/reppsa/

SR2002 Objective	(V) Secure an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest.
SR2002 PSA Target	There is no PSA target for Objective V.
SDA Targets	B Objective 5.1 By implementing, with the FSA, the new legislative and regulatory framework established under the Financial Services and Markets Act 2000. B Objective 5.2 By maintaining, with the Bank of England, FSA and authorities abroad, the framework for safeguarding financial stability. B Objective 5.3 By improving the transparency, accessibility and responsiveness of retail financial markets, especially in following up reviews such as that undertaken by Ron Sandler into savings markets and in on-going policy work. B Objective 5.4 By achieving, with our European partners, the EU targets for the single market in financial services (2003 and 2005), and making progress in the WTO round towards more global open trade. B Objective 5.5 By continuing to improve national and international systems for fighting crime, especially money laundering and terrorist financing.
Performance Indicator	N/A
Commentary	**On course** To meet the SDA targets above the Treasury has, among other things: • announced, in December 2004, the introduction of a comprehensive package of deregulatory reforms which will keep FSMA at the forefront of regulatory best-practice whilst addressing important public policy issues such as the need for people to save more for retirement and helping people to manage personal debt problems better; • conducted, in November 2004, along with the Bank of England and the Financial Services Authority (FSA), and with private sector support, the first financial sector-wide test for business continuity commnunications arrangements; • put legislation in place, in December 2004, to create the stakeholder short- and medium-term products as part of the Government's commitment following the Sandler Review; announced in December 2005, the publication of Paul Myners' report on the corporate governance of life mutuals and, in March 2005, the publication of Sir Derek Morris's report on the actuarial profession; and published, in December 2004, the document 'Promoting financial inclusion' setting out the next steps for tackling financial exclusion; • made progress in implementing the EU Financial Services Action Plan (FSAP) and identified the UK's future priorities for achieving financial market integration in Europe; and • published, in October 2004, alongside the Home Office and Foreign and Commonwealth Office, its 'Anti-Money Laundering Strategy' document setting out how the Government will continue its fight against money laundering.
Quality of data systems	N/A

SR2002 Objective	(VI)	Expand economic and employment opportunities for all.
SR2002 PSA Target	7	Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle (joint target with the Department for Work and Pensions).
SDA Targets	B7.1	By maintaining macroeconomic stability (Objective I).
	B7.2	By working with the Department for Work and Pensions to develop cost effective policies to help people move from benefits into work, and to ensure that such welfare to work programmes are delivered in a cost effective manner.
	B7.3	By establishing appropriate incentives to work.
Performance Indicator	For employment, seasonally adjusted International Labour Organisation (ILO) employment rates for the working age population of Great Britain (GB), with a judgement as to the economic cycle, as assessed by the Treasury in the Pre-Budget Report and Budget. For unemployment, seasonally adjusted ILO unemployment rates for the population of GB, aged 16 and over, with a judgement as to the economic cycle, as assessed by the Treasury in the Pre-Budget Report and Budget.	
Commentary	**On course** The baseline for this target is spring 2003, when the employment rate stood at 74.8 per cent and the unemployment rate at 5.0 per cent. The latest available data (ONS Labour Market Statistics, February to April 2005) shows that the GB employment rate is now at 74.9 per cent, up by 0.1 percentage points on spring 2003 levels, and the unemployment rate is now at 4.7 per cent, a decrease of 0.3 percentage points.	
Quality of data systems	UK labour market figures for employment and unemployment are taken from the Labour Force Survey (LFS) and are published by the Office for National Statistics. The definitions used in the LFS are based on internationally agreed standards set by the International Labour Organisation (ILO).	

SR2002 Objective	(VII)	Promote a fair and efficient tax and benefit system with incentives to work, save and invest.
SR2002 PSA Target	8	Reduce the number of children in low-income households by at least a quarter by 2004 as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020 (joint target with the Department for Work and Pensions).
SDA Targets	B8.1	By working with the Department for Work and Pensions and Inland Revenue to ensure a secure and uninterrupted family income that makes a sufficient contribution to meeting the 2004 target through tax and benefit reforms, notably through the smooth delivery of the Working Tax Credit and the Child Tax Credit from 2003.
	B8.2	By working with the Department for Work and Pensions to increase employment and reduce unemployment over the economic cycle (PSA 7).
	B8.3	For the longer term, by working with the Department for Work and Pensions to implement the conclusions from their consultation on the measurement of child poverty.
Performance Indicator	Number of children in low-income households by 2004-05. Low-income households are defined as households with income below 60 per cent of contemporary median equivalised income as reported in the annual Households Below Average Income (HBAI). HBAI statistics cover Great Britain. Progress is reported against the 1998-99 baseline figures. The baseline is 4.1 million children in low-income households after housing costs (AHC) and 3.1 million before housing costs (BHC).	
Commentary	**On course** Between 1998-99 and 2002-03 (the latest data available published in March 2005) the numbers of children in low-income households fell by 0.6 million AHC and 0.5 million BHC. The latest data do not reflect the full effect of the new tax credits introduced in April 2003 nor the £180 per year increase in the child element of the Child Tax Credit which took effect from April 2004 and the subsequent increase in line with earnings from April 2005. As a result of these changes, the Government is on course to meet the target on a BHC basis. Achieving the target in less certain on an AHC basis. The nature of the target means there are uncertainties either way. The Child Poverty Review[10], published alongside the 2004 Spending Review White Paper, outlined the longer-term target for halving child poverty. HBAI outturn data for 2004-05 will be available in early 2006.	
Quality of data systems	Performance against this target is assessed using the annual HBAI report published by the Department for Work and Pensions and the Office for National Statistics.	

[10]http://www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_childpoverty.cfm

SR2002 Objective	(VIII) Improve the quality and the cost effectiveness of public services.
SR2002 PSA Target	9 Improve public services by working with departments to help them meet their Public Service Agreements (PSA) targets, consistently with the fiscal rules (joint target with the Cabinet Office).
SDA Targets	HM Treasury and the Prime Minister's Delivery Unit will work with departments to: B9.1 ensure they have in place effective plans to deliver their PSA targets, with robust milestones and trajectories; B9.2 monitor departments' performance against their plans and their PSA targets through information gathering, regular meetings at official level, and supporting ministerial discussions; and B9.3 ensure necessary corrective action is taken when delivery is not on track.
Performance Indicator	Progress towards PSA targets is reported biannually in (spring) Departmental Reports and Autumn Performance Reports, and progress towards the SR2002 PSAs is set out on the PSA Performance website[11].
Commentary	**On course** SR2002 set stretching outcome-focused targets for key areas of the public services. Responsibility for delivery of PSA targets rests with departmental Secretaries of State, as set out in the "who is responsible[12] section of each PSA. Final assessment against this target will only be possible after all parts of SR2002 targets have fallen due and final assessments have been made. In the meantime departments continue to publish ongoing progress as described in the previous paragraph. Progress can of course vary up until the time when a final assessment is made. In the latest Autumn Performance Reports (autumn 2004) summary interim assessments were made for a majority of PSA targets. For targets where an assessment was made, around 70 per cent were reported to be on course.
Quality of data systems	The PSA Performance Website draws data from departmental systems. These departmental data systems are validated by the National Audit Office (NAO) at least once in the life time of each PSA target. The NAO published a report in March 2005 'Public Service Agreements: Managing Data Quality - Compendium Report'[10] drawing on its examination of data systems used by seven departments and one cross-cutting programme.

[11]www.hm-treasury.gov.uk/performance
[12]www.nao.org.uk/publications/nao_reports/04-05/0405476.pdf

SR2002 Objective	(IX) Achieve a high standard of regularity, propriety and accountability in public finance.
SR2002 PSA Target	There is no PSA target for Objective IX
SDA Targets	B Objective 9.1 To develop and maintain an effective financial accounting and reporting framework for the UK central government sector; so maintaining a world-class position in government financial management. B Objective 9.2 To develop and maintain an effective framework for control of public finances promoting high standards of regularity, propriety, value for money and accountability, and reflecting as appropriate best practice in the private sector. B Objective 9.3 To improve the quality of information available for Government decision making by developing and implementing systems and procedures needed to produce consolidated accounts for central government. A measure of success will be to publish the first consolidated Central Government Accounts for 2003-04.
Performance Indicator	N/A
Commentary	**On course** Key achievements include: • in line with the commitment in the 2004 Spending Review, department-by-department reviews were embarked on against a common framework of the effectiveness of financial management of government departments, beginning with the biggest departments and working closely with the departments concerned; • Risk Management programme completed with report to Prime Minister. Publication of updated version of the "Orange Book" on risk management; supporting effective use of internal audit; and disseminating advice and guidance on tackling fraud including production of annual fraud report and guide to tackling external fraud published with NAO; • assisting departments on meeting the goal of having professional Finance Directors by December 2006 and on options and processes related to succession planning and recruitment. In addition, fast track accountancy training has been set up with the accountancy bodies; • completion of Single Data System build and testing phases ready for initial 'go live' in April 2005. Progress with the production of 2003-04 CGA and development of processes required for first dry-run WGA; and • in support of Internal Control Statement, Treasury Accounting Officers provided with annual assurance on risk management, control and governance by Treasury Internal Audit.
Quality of data systems	N/A

SR2002 Objective	(X) Protect and improve the environment by using instruments that will deliver efficient and sustain able outcomes through evidence-based policies.
SR2002 PSA Target	There is no PSA target for Objective X.
SDA Targets	B Objective 10.1 By working with other departments and with EU partners to appraise the sustainable development implications of policy proposals. B Objective 10.2 By using fiscal instruments to deliver environmental objectives, in accordance with the Statement of Intent on Environmental Taxation, and other instruments where appropriate.
Performance Indicator	N/A
Commentary	**On course** A range of measures have been introduced including: the climate change levy and associated climate change agreements and targeted spending measures; the aggregates levy; increases in the landfill tax; enhanced capital allowances for energy saving technologies; incentives for domestic energy efficiency; and use of fuel duty and vehicle taxes to incentivise cleaner vehicles and fuels. Progress against the objective continues to be made through the development and implementation of further measures such as the EU Emissions Trading Scheme; the Landlords Energy Saving Allowance and further work on the Green Landlord Scheme; an Energy Efficiency Innovation Review; a package of measures to promote the use of biofuels, including a Road Transport Fuels Obligation: a package of new measures to tackle greenhouse gas emmissions; and further work on lorry road-user charging. The effectiveness of existing policies also continues to be monitored and evaluated, for example through publication of the climate change levy alongside Budget 2005 and the work of the Climate Change Programme Review. In Spending Review 2004 departments were also asked to integrate Sustainable Development into their submissions to ensure that the sustainable development implications of policy proposals were effectively considered.
Quality of data systems	N/A

SR2002 Objective	N/A
SR2002 PSA Target	By 2005-2006, deliver £3 billion of value for money gains in central civil Government procurement through the Office of Government Commerce.
SDA Targets	B10.1 By: i) directly supporting the successful delivery of projects and programmes by departments; ii) focusing our effort on activities that have high value and high impact for Government; and iii assisting and leading departments in developing the level of capability they need as clients. B10.2 By: i) developing and managing the Gateway process; ii) improving the commercial skills available to departments; iii improving Government ability to manage supplier relationships; iv) making the Government marketplace more attractive to suppliers in all sectors; v) developing innovative tools and techniques and more effective ways of achieving private sector involvement; vi) helping departments to embed best practice (including operational guidance) and cross-governmental lessons learned in their commercial activities; vii) catalysing collaborative opportunities (including aggregation deals).
Performance Indicator	Annual returns on value for money gains reported by central civil government bodies and centrally collected data on procurement in civil central government. The reporting is based on methodologies agreed with the National Audit Office.
Commentary	**On course** This PSA target is measured annually. Value for money gains in 2003-04 were £2 billion. A full report of progress towards the SDA targets is given in Chapter 7 of this report
Quality of data systems	Value for money gains are measured by individual departments and through other methodologies. OGC has published detailed methodological guidance to departments entitled "Value for Money Measurement.[13] OGC aggregates the data produced by the methodologies to produce the total.

[13]available on the OGC website at www.ogc.gov.uk

SR2002 AND SR2000 CROSS-CUTTING SDA TARGET

SDA Target	SR2002 SDA C1.1 and SR2000 SDA C1.5 **Bank of England**: Minimise the cost of holding the Government's foreign currency reserves, while managing risks within the limits agreed between the Bank and the Treasury – performance will be assessed against a target of average annual cost over the preceding three years no greater than zero.
Performance Indicator	Average annual cost over preceding 3 years no greater than zero.
Commentary	**Slippage** The net return on the foreign currency reserves is measured on a "mark-to-market" basis (including changes in the capital value of assets and liabilities as well as net interest receipts and borrowing costs). Over the period 1st April 2002 to 31st March 2005 the total net costs on the Government's foreign currency reserves were £884 million. This equates to an average annual cost of £295 million, which represents approximately 1 per cent of the reserves.

(£million)	2002-03	2003-04	2004-05	Total
Net Cost/Return	96	-512	-468	-884
of which due to exchange rate and gold price movements	27	-418	-142	-533

Of the total net cost over three years of £884 million, £533 million was due to movements in exchange rates. The most significant factor was the depreciation of the dollar against sterling in 2003-04.

A2 PERFORMANCE AGAINST OUSTANDING COMPREHENSIVE SPENDING REVIEW1998 PSA TARGET

CSR 1998 Objective	4	Increase the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, competition, innovation, enterprise, better regulation and increased employability.
CSR 1998 PSA Target	(xiv)	Secure an increase in the number of successful high growth business start-ups (joint target with the Department for Trade and Industry).
Performance Indicator		Number of VAT registered firms with a turnover above £1 million, and/or 10 employees, four years after registering for VAT[1].

Commentary

On course

Provisional data shows that, of the businesses which registered in 2000, 12,400 can be defined as high-growth start-ups.

After a decline in the number of high-growth start-ups over the period 1994 to 1996, the number of high-growth start-ups has increased again, and provisional figures for 2000 show a slight increase on 1999 levels.

Year of VAT registration	Number of businesses defined as high-growth start-up
1994	12,300
1995	11,800
1996	11,100
1997	12,200
1998	12,200
1999	12,300
2000	12,400 (provisional)

Quality of data systems

Data are from the Inter-Departmental Business Register (IDBR), which is maintained by the Office for National Statistics[2].

[1]Data after 3 years of trading are provided by the Office for National Statistics, and estimates for 4 years of trading are made by the Small Business Service to report against this target. The quality of these estimates will be reviewed prior to reporting the final position of this target in 2006 (based on the 2002 cohort of registrations)

[2]www.statistics.gov.uk/idbr

A3 PERFORMANCE AGAINST OUSTANDING 2002 SPENDING REVIEW AND 2000 SPENDING REVIEW CORPORATE SDA TARGETS

	Electronic Government
SDA Target	SR2002 SDA target C2.1 and SR2000 SDA target F1 **Treasury Services**: All services provided by the Treasury to business and the public will be provided online by 2005. Services will only be counted as electronically enabled when every step in the process is enabled.
Performance Indicator	N/A
Commentary	**Met-ongoing** Services in this area relate to the provision of information, specifically the work of publishing, public enquiry and ministerial correspondence units, which deal directly with the public. In all cases, the Treasury is offering these services online through e-mail and websites.

	Procurement
SDA Targets	SR2000 SDA target C2.1 The Treasury will reduce transaction costs by 30 per cent by 2004. SR2000 SDA target C2.3 The Treasury will pay all invoices within contractual conditions, or 30 days of receipt of the invoice, or delivery of the goods or service, whichever is the later.
Performance Indicator	C2.1 Percentage reduction in transaction costs. C2.3 N/A
Commentary	C2.1 **On course** Further rationalisation of processes and savings to be achieved through the shared services agenda as part of the Treasury's response to the efficiency review. C2.3 **Slippage** In 2004-05 to date, 90 per cent of Treasury invoices have been paid within 30 days or within the agreed contractual terms if otherwise specified. This remains slightly below the target, due to the residual effects of a major internal systems change in 2003-04.

	Consumer Focus
SDA Target	SR2000 SDA target D1. To reply to Parliamentary Questions promptly.
Performance Indicator	Named Day PQs – 65 per cent by due date. Ordinary PQs – 75 per cent by due date. Lords PQs – 90 per cent by due date
Commentary	**Met-ongoing** For the 2003-04 Parliamentary session which ended on 18 November 2004 Commons Named Day PQs: 74.7 per cent Commons Ordinary PQs: 79.6 per cent Lords PQs: 96.8 per cent Information on performance against this target during the 2004-05 Parliamentary session can be found in the "Managing Ourselves" chapter of this report.

A4 MAPPING OF 2002 SPENDING REVIEW PSA TARGETS TO 2004 SPENDING REVIEW PSA TARGETS

SR2002 PSA Targets		SR2004 PSA Targets	
Target 1	Demonstrate progress by 2004 on the Government's long-term objective of raising the trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.	Target 1	Demonstrate by 2008 progress on the Government's long-term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projection.
Target 2	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 CPI).	Target 2	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).
Target 3	Over this economic cycle, maintain: public sector net debt below 40 per cent of GDP; and the current budget in balance or surplus.	Target 3	Over the economic cycle, maintain: • public sector net debt below 40 per cent of GDP; and • the current budget in balance or surplus.
Target 4	Promote increased global prosperity and social justice by: • working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards; • ensuring that three-quarters of all eligible HIPC countries committed to poverty reduction receive irrevocable debt relief by 2006 and working with international partners to make progress towards the United Nations 2015 Millennium Development Goals (joint target with the Department for International Development); and • demonstrating progress towards the Lisbon goals by 2006, by working with our European Union partners to achieve structural economic reform in Europe.	Target 8	Promote increased global prosperity and social justice by: • working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards; • ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008 and that international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals. (Joint with the Department for International Development) • working with our European Union partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008.

SR2002 PSA Targets		SR2004 PSA Targets	
Target 5	Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany (joint target with the Department for Trade and Industry).	Target 4	Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. (Joint with the Department of Trade and Industry).
Target 6	Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006 (joint target with the Office of the Deputy Prime Minister and the Department for Trade and Industry).	Target 6	Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. (Joint with the Office of the Deputy Prime Minister and the Department for Trade and Industry).
Target 7	Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle (joint target with the Department for Work and Pensions).	Target 5	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate. (Joint with the Department for Work and Pensions)
Target 8	Reduce the number of children in low-income households by at least a quarter by 2004, as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020 (joint target with the Department for Work and Pensions).	Target 7	Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. (Joint with the Department for Work and Pensions).
Target 9	Improve public services by working with departments to help them meet their Public Service Agreement (PSA) targets, consistently with the fiscal rules (joint target with the Cabinet Office).	Target 9	Improve public services by working with departments to help them meet their: • PSA targets (joint with the Cabinet Office); and • Efficiency targets amounting to £20 billion a year by 2007-08; consistently with the fiscal rules.
Target 10	By 2005-06, deliver £3 billion of value for money gains in central civil Government procurement through the Office of Government Commerce.	Target 10	Deliver a further £3 billion saving by 2007-08 in central government civil procurement, through improvements in the success rate of programmes and projects and through other commercial initiatives.

B HM Treasury public expenditure data, including core tables

Introduction

B1 This annex is a statistical account of the costs of running the Treasury and its associated bodies.

B2 Spending statistics for the Treasury include a wide range of functions and entities. Other functions include coinage, the Civil List, salaries and pensions of MEPs, and investments in the Bank of England. Other entities include the Debt Management Office and the Office of Government Commerce.

B3 To present the information most effectively, Part 2 of this annex disaggregates the core Treasury – the policy department based in 1 Horse Guards Road, London – from the other functions and entities. Part 1 sets out the tables for the whole departmental grouping in the same format as other departmental reports. Fuller information on the public expenditure of the group as a whole can also be found in the Treasury Resource Accounts.

B4 The data has been updated to reflect the Treasury's expanded role in tax policy, funded by a transfer of funding from the revenue departments, and has been presented in line with machinery of government changes. The costs of this function for years prior to the transfer are included in previous years' totals to aid comparison, the transfer of function taking place in 2004-05.

PART 1: SPENDING BY THE TREASURY GROUP

B5 Part 1 of this annex contains public expenditure data for the Treasury group as a whole including coinage, the Civil List, salaries and pensions of MEPs, investments in the Bank of England, the Debt Management Office and the Office of Government Commerce.

B6 For more information, refer to the HM Treasury Estimate published as part of the Main Supply Estimates for Government on 25 May 2006 (HC2)[1].

B7 This section of the annex contains the tables common to all departmental reports. Due to rounding, some of the totals in the tables may differ from the sum of the line items.

Table 1: Total public spending for the HM Treasury group[2]

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Consumption of resources:									
Total resource budget[3]	**209**	**216**	**221**	**357**	**293**	**316**	**318**	**309**	**317**
Of which:									
Resource DEL	158	180	153	278	212	251	256	248	248
Capital spending:									
Total capital budget	**-23**	**26**	**-32**	**58**	**4**	**-16**	**7**	**7**	**7**
Of which:									
Capital DEL	-23	26	-32	58	4	-16	7	7	7
Total public spending[4]	158	237	181	335	289	283	310	309	315

Explanations of trends are given in notes to subsequent tables. A fuller picture of the Treasury's financial affairs is given in its Resource Accounts (most recently HC 920 for 2003-04 published 19 July 2004).

[1]Available at http://www.hm-treasury.gov.uk/media/0A4/BEmain_est_2005_38_HMT.pdf

[2]The Treasury group includes:
- core Treasury's administration activities
- other functions of the core Treasury – notably the supply of UK coinage;
- the Debt Management Office (DMO) - see chapter 7 of this report;
- the Office of Government Commerce (OGC) – see chapter 7 of this report; and
- other functions including the Civil List, the salaries and pensions of UK members of the European Parliament, and grants-in-aid (see footnote 14 Table 2).

[3]Total resource budget calculated as the sum of the Departmental Expenditure Limit (DEL), set in biennial Spending Reviews, and Annually Managed Expenditure (AME).

[4]Net of depreciation. This is the standard public expenditure presentation.

Table 2: Resource budget for HM Treasury group

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Core Treasury[5]	**164**	**155**	**122**	**217**	**153**	**173**	**177**	**180**	**179**
Of which									
Net administration costs[6]	67	71	74	101	106	110	112	112	112
Exceptional items[7]	23			69					
Financial Inclusion Fund							1	1	1
Banking and gilts registration[8]	13	12	12	11	12	17	12	12	13
Coinage	42	42	37	34	34	36	37	39	39
Cost of investments[9]	27	29	1	1	1	1	1	1	1
Other core Treasury[10]	-7	1	-1	0	1	9	14	15	14
Debt Management Office	**3**	**5**	**8**	**7**	**8**	**13**	**15**	**15**	**15**
Of which									
Net administration costs	5	6	8	6	7	10	11	11	11
Office of Government[11]	**-33**	**-12**	**0**	**42**	**32**	**48**	**50**	**41**	**41**
Of which									
Net administration costs	12	18	31	37	35	41	43	43	43
Residual estate	-43	-34	-31	5	-3	-1	-1	-2	-2
Other	-2	4	0	0	0	8[12]	8	0	0
Net cost of investment in Bank of England[13]	**42**	**31**	**63**	**72**	**77**	**60**	**55**	**52**	**60**
Other functions[14]	**33**	**37**	**28**	**20**	**23**	**22**	**22**	**22**	**23**
Of which									
Civil List	10	10	10	10	10	10	10	10	10
Salaries and pensions of MEPs	9	8	5	6	7	7	7	7	7
Grant in Aid to Statistics Commission	0	1	1	1	1	2	1	1	1
Royal Household Pension Fund	0	0	1	2	2	2	2	3	3
Other	13	18	11	1	3	2	2	2	2
Total resource budget	**209**	**216**	**221**	**357**	**293**	**316**	**318**	**309**	**317**

[5] This data has been updated to reflect the Treasury's expanded role in tax policy, funded by a transfer of funding from the revenue departments, and has been presented in line with machinery of government changes. The costs of this function for years prior to the transfer are included in previous years' totals to aid comparison, the transfer of function taking place in 2004-05.

[6] Detailed further in table 5 and part 2 of this annex

[7] £23 million for 1999-2000 due to the writing down to zero of the value of the Treasury's former accommodation (Government Offices, Great George Street), following an independent valuation of the building's market value; £69 million for 2002-03 representing the difference between the costs of refurbishing 1 Horse Guards Road incurred by the Treasury's private sector partner and the value, independently assessed, of the refurbished building based on rental potential (a full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999).

[8] For services formerly provided by the Bank of England, contracted out from 2005 onwards. Start up costs of the new provider cause the increase in costs in 2004-05.

[9] The Treasury's investments in Partnerships UK, the Royal Mint, Troika plc and small holdings in certain formerly nationalised industries. In each case this cost comprises a non-cash cost of capital charge, based on the value of the investment. Most holdings in former nationalised industries were sold in 1999-2000 and 2000-01, explaining the subsequent reduction in the figures.

[10] The increase in this line from 2004-05 onwards includes spending on the UK's joint presidencies of the G7 and G8, and budgets for the promotion of retail savings products introduced following the Sandler Review's recommendations.

[11] OGC is responsible for the management and disposal of the residual surplus Civil Estate properties inherited in 1996 by its predecessor, the Property Advisers to the Civil Estate. Between 1996 and 2005, the Estate reduced from 384 to 20 properties, and this had a considerable impact on OGC's resource budget, particularly in the earlier years. The negative outturns occur because the OGC's balance sheet contains provisions for the onerous costs of residual leasehold properties. As the estate is disposed of, surplus provisions are released, counting as a credit to the resource budget. The value of the releases becomes smaller as the rate of disposal of properties reduces.

[12] The £8 million in 2004-05 and 2005-06 is the allocation from the Efficiency Challenge Fund (ECF) and managed through OGC as part of the SR2004 settlement. ECF monies unspent in 2004-05 can be added to the 2005-06 allocation through end year flexibility.

[13] See table 4, footnote 23 on the balance sheet treatment of the Bank of England.

[14] These are financed by Treasury for historical reasons and include grants to the Inter-Parliamentary Union, the Commonwealth Parliamentary Association, the British American Parliamentary Group and the British-Irish Inter-Parliamentary Body.

Table 3: Capital budget for HM Treasury group

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Core Treasury[15]	**4**	**23**	**7**	**128**	**1**	**-19**	**3**	**3**	**3**
Of which:									
Administration	4	3	7	1	1	-19	3	3	3
Exceptional item				141[16]					
Investments		20[17]		-14[18]					
Debt Management Office	**2**	**1**	**2**	**1**	**1**	**2**	**1**	**1**	**1**
Office of Governent Commerce	**-29**	**3**	**-41**	**-71**	**2**	**0**	**2**	**2**	**2**
Of which:									
Residual estate and Whitehall Systems[19]	-31	1	-42	-74	0	-3	0	0	0
Administration	2	2	1	3	2	3	2	2	2
Total Capital Budget	**-23**	**26**	**-32**	**58**	**4**	**-16**	**7**	**7**	**7**

[15]Since 2002-03, when the Treasury occupied its new headquarters building procured under the Private Finance Initiative, its capital expenditure has been mainly on operational IT assets. Prior to that date expenditure included some works to buildings. In 2000-01 it also included a £20 million investment in Partnerships UK. See table B in part 2 of this annex for more information. 2004-05 includes a capital receipt from the disposal of the land at 100 Parliament Street for £22 million. Disposal proceeds are surrendered to the Consolidated Fund and not spent within the Treasury group.

[16]In line with standard accounting practice the £141 million costs of the 1 Horse Guards Road project, incurred and paid by the private sector partner, is presented as part of the Treasury's own capital expenditure for 2002-03, although the Treasury made no corresponding cash payment. (A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999)

[17]£20 million net investment in Partnerships UK (PUK). PUK was established on 1 April 2000 to provide a permanent and sustainable centre of expertise to develop the Government's Public Private Partnership programme. 51 per cent of shares are allocated to private investors, 44.56 per cent of shares are retained by the Treasury and 4.44 per cent of shares were allocated to the Scottish Executive.

[18]The credit of £14 million arose from the disposal of residual shares from past privatisations in power companies – Powergen and Innogy.

[19]Capital receipts from the sale of residual freehold properties of £42 million in 2001-02 and £74 million in 2002-03 were mostly accounted for by the sale of, respectively, 2 Marsham Street SW1 and Burtonwood, near Warrington. Disposal proceeds are surrendered to the Consolidated Fund and not spent by the Treasury group.

Table 4: Capital employed by HM Treasury group

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Fixed assets	**1406.7**	**1569.8**	**1610.7**	**1662.6**	**1710.3**	**1697.6**	**1724.2**	**1767.0**	**1807.0**
Of which									
Intangible assets[20]	1.1	1.2	1.5	1.5	1.9	2.4	3.8	4.7	4.6
Tangible assets[21]	55.4	56.3	57.2	129.6	123.0	99.2	94.5	96.4	96.4
Of which									
Land & Buildings[22]	30.1	31.1	32.1	109.3	105.3	86.7	79.0	79.9	79.7
Leasehold improvements	0.3	-	0.9	0.6	0.6	5.6	6.3	6.3	6.4
Plant & Machinery	0.2	0.2	0.1	0.1	0.1	0.2	0.3	0.3	0.2
Furniture & Equipment	7.2	8.0	2.1	1.1	0.5	0.9	1.3	1.3	1.3
IT Equipment	-	-	6.2	4.1	2.4	4.1	5.9	7.0	7.2
Library & antiques	1.9	1.9	1.8	1.6	1.5	1.6	1.6	1.6	1.6
Whitehall systems	15.7	15.1	14.0	12.8	12.6				
Investments[23]	1350.2	1512.3	1552.0	1531.5	1585.4	1596.0	1626.0	1666.0	1706.0
Current Assets[24]	385.0	440.7	260.4	187.0	78.0	99.0	91.0	92.4	81.3
Creditors (<1 year)[25]	-158.4	-336.5	-168.5	-203.7	-82.6	-80.6	-84.6	-86.5	-41.9
Creditors (>1 year)[26]	0	0	0	-141.8	-144.9	-148.0	-150.6	-153.0	-155.5
Provisions[27]	-122.3	-99.3	-48.4	-30.6	-28.2	-22.8	-10.7	-6.5	-4.5
Capital employed	**1511.0**	**1574.7**	**1654.2**	**1473.5**	**1532.6**	**1545.2**	**1569.3**	**1613.4**	**1686.4**

Further details of the Treasury's balance sheet are given in its 2003-04 Resource Accounts, HC920.

[20] Principally computer software

[21] Tangible assets mainly represent land and buildings, IT equipment and the Whitehall heating and standby power systems operated by OGC.

[22] Land and Buildings values are driven by the capital budget as well as adjustments for depreciation and revaluations which are forecast for 2004-05 onwards. The increase in value in 2002-03 arises from the addition of 1 Horse Guards to the balance sheet. (A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999)

[23] In line with the Resource Accounting Manual's rules on investments, the net cost of the Government's shareholding in the Bank of England is treated as an investment in the Treasury's accounts, and valued in line with the Bank's net assets of some £1.5 billion. A gross cost of capital charge is made resulting in a capital charge of around £100 million. The Bank pays the Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. This is credited as income to the central Treasury budget but is then surrendered to the Consolidated Fund.

[24] Current assets include debtors, investments awaiting sale, cash and (especially in earlier years) the vacant civil estate managed by the OGC.

[25] The principal short-term creditor is the Consolidated Fund.

[26] Since 2002 Exchequer Partnership has been a long-term creditor in respect of payments due to it in the remaining years of the PFI arrangement for 1 Horse Guards Road.

[27] Provisions mainly relate to the OGC's vacant civil estate, and also include a balance for early retirements.

Table 5: Administration costs for HM Treasury group

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Gross administration costs									
Paybill	59	64	70	75	83	87			
Other	67	54	61	88	79	84			
Total gross administration costs	**126**	**118**	**130**	**163**	**162**	**171**	**177**	**177**	**177**
Related administration cost receipts	-19	-23	-18	-18	-14	-10	-10	-10	-10
Total net administration costs	**106**	**96**	**113**	**145**	**148**	**160**	**167**	**167**	**167**
Analysis by activity									
Core Treasury[28]	67	71	74	101	106	110	112	112	112
Exceptional item[29]	23								
Financial Inclusion Fund							1	1	1
Debt Management Office	5	6	8	6	7	10	11	11	11
Office of Government Commerce[30]	12	18	31	37	35	41	43	43	43
Total net administration costs	**106**	**96**	**113**	**145**	**148**	**160**	**167**	**167**	**167**

[28] Refer to table A in Part 2 of this annex for further analysis.

[29] Write down on building value - see footnote 7, table 2

[30] The OGC's increase in administration costs of £23 million between 1999-00 and 2003-04 was due to the organisation's initial start up phase, including restructuring, and the costs of successfully delivering its new and expanding agenda, including e-commerce, Gateways and embedding best procurement practices. There was also a planned significant reduction in sales revenue as a result of a change in business focus. Future increases are for OGC's extended remit to deliver its expertise across the whole public sector and for its role in driving forward and coordinating the implementation of the Government's efficiency review.

Table 6: HM Treasury Staff Numbers (Treasury Group)[31]

Full-time equivalents	1st April 2001	1st April 2002	1st April 2003	1st April 2004	1st April 2005	1st April 2006 Plans	1st April 2007 Plans	1st April 2008 Plans
Core Treasury[32]								
CS Permanent	980	1140	1160	1140	1044	1020	1000	990
CS Casual	40	70	60	64	62	60	60	60
Total Gross Control	**1020**	**1210**	**1220**	**1204**	**1106**	**1080**	**1060**	**1050**
DMO								
CS Permanent	66	76	79	84	76	84	84	84
CS Casual	1	1	2	2	2	1	1	1
Total Gross Control	**67**	**77**[33]	**81**	**86**	**78**	**85**	**85**	**85**
OGC								
CS Permanent	450	410	380	370	380	380	370	360
CS Casual	10	10	10	20	70	110	90	30
Total Gross Control	**460**	**420**	**390**	**390**	**450**[34]	**490**	**460**	**390**
Treasury Group								
CS Permanent	1496	1626	1619	1594	1500	1484	1454	1434
CS Casual	51	81	72	86	134	171	151	91
Total Gross Control	**1547**	**1707**	**1691**	**1680**	**1634**	**1655**	**1605**	**1525**

Table 6a: Treasury Group Trading Fund[35] Staff Numbers

Full-time equivalents	1st April 2001	1st April 2002	1st April 2003	1st April 2004	1st April 2005	1st April 2006 Plans	1st April 2007 Plans	1st April 2008 Plan
OGCbuying.solutions								
CS Permanent	-	190	230	241	275	278	285	290
CS Casual	-	10	10	0	0	0	0	0
Total Gross Control	**-**	**200**	**240**	**241**	**275**	**278**	**285**	**290**

[31] Full-time equivalent staff numbers reported in Table 6 use Cabinet Office Mandate definitions. In previous departmental reports a mid-point during the year has been used for reporting purposes. This year the outturn figure at the end of the financial year (1st April 2004 for 2003-04, 1st April 2005 for 2004-05 etc) has been used so that the reported staff numbers are consistent with the numbers reported by the Cabinet Office in their Mandate report, and can clearly demonstrate how the Treasury Group is performing against its efficiency plans for staff numbers against a baseline of 1st April 2004.

[32] As part of the implementation of the O'Donnell review responsibility for tax policy and 150 full time equivalent staff were transferred from the HM Revenue & Customs to the Treasury during 2004-05. Years prior to 2004-05 have been adjusted to reflect this machinery of government change.

[33] Responsibility for the National Investment & Loans Office and 30 full time equivalent staff were transferred to the DMO during 2002-03. Years prior to 2002-03 have been adjusted to reflect this machinery of government change.

[34] The OGC took on an enhanced remit during 2004-05 with particular responsibility for leading on the implementation of the efficiency review across Government and in the wider public sector. Once this task is completed by the end of the 2004 Spending Review period the OGC will broadly revert to its 2003-04 staff complement.

[35] This table relates purely to the Treasury Group, and Trading Funds thereof. Information on any bodies in which Treasury holds an investment can be found in the Treasury's Resource Accounts.

PART 2: SPENDING BY THE CORE TREASURY

Core costs of running the Treasury

B8 In his Budget statement of 17 March 2004, the Chancellor of the Exchequer announced his decision to freeze the budget of the core Treasury at 2005-06 levels until 2007-08, the last year covered by the 2004 Spending Review.

B9 Table A shows the projected administrative spending for the core Treasury up to and including 2007-08, the final year of the 2004 Spending Review.

Table A: Core Treasury administration costs

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Core underlying costs	**60**	**63**	**66**	**72**	**75**	**78**	**79**	**79**	**78**
Significant items									
Transfer of tax policy work from HM Revenue & Customs	7	8	8	8	8	10	9	9	9
Changes to pension contributions							3	3	3
Reclassification from capital and depreciation charges				4	1	1	2	2	2
Costs of restructuring					3	2			
Costs of modernisation of Treasury accommodation									
Cash:									
Unitary payment under PFI deal				10	14	15	15	15	16
Disposal of Allington Towers				3					
Fit out costs				2	1				
Non-Cash:									
Indexation of creditor				2	4	4	4	4	4
Core Treasury Administration Costs[36]	**67**	**71**	**74**	**101**	**106**	**110**	**112**	**112**	**112**

[36]See also Table 5 in Part 1 of this Annex

B10 Table A separately identifies the impact of the move to the new building in 2002-03. It also shows that the Treasury's budget will be declining in real terms from 2005-06 onwards. Before the freeze announced in the 2004 Budget takes effect, there are some variations in the level of expenditure between 2003-04 and 2005-06 as shown in table A:

- costs associated with the transfer of tax policy from the revenue departments (including £1 million non-recurrent costs in 2004-05);
- changes to pension contributions: this reflects revisions to the way employer contributions to the civil service pension scheme are calculated. Baseline funding has been increased to accommodate the impact of this change. This raises the annual administrative budget of the Treasury by around £3 million per year;
- costs of restructuring, incurred as part of the Treasury's restructuring to rationalise back office functions and improve efficiency.

B11 The Treasury's budget increased significantly in 2002-03 from 2001-02 as a result of two factors:

- costs of modernisation of Treasury accommodation: these include the revenue impact of the Unitary Payment and some cash and non-cash costs arising as a result of the on-balance sheet treatment of the new Treasury building in the department's accounts; and
- the filling of staff vacancies, which increased costs by £5 million in 2002-03 compared to 2001-02, though the full year impact was not felt until 2003-04.

The core Treasury's programme budget

B12 Key elements of core Treasury's programme budget are shown in table 2, part 1 of this annex. It includes banking and Gilts registration services (formally provided by the Bank of England), coinage and cost of investments.

The core Treasury's capital budget (Table B)

B13 The Treasury's ongoing core capital budget is small, and involves mainly operational IT assets.

B14 In the Treasury's 2002-03 accounts the new accommodation at 1 Horse Guards Road was placed on the department's audited balance sheet. This means the capital value of the building counts as public sector net investment and under the public expenditure control framework is charged to the Treasury's capital budget. This explains the charge of £141 million to the budget in that year.

B15 The investments line shows a £20 million net investment in Partnership UK (PUK) in 2000-01. PUK was established on 1 April 2000 to provide a permanent and sustainable centre of expertise to develop the Government's Public Private Partnership programme. 51 per cent of shares are allocated to private investors, 44.56 per cent of shares are retained by the Treasury and 4.44 per cent of shares were allocated to the Scottish Executive. The line also shows a credit of £14 million in 2002-03 arising from the disposal of residual shares from past privatisations in power companies – Powergen and Innogy.

B16 In 2004-05 the Treasury disposed of land at 100 Parliament Street to HM Revenue and Customs for its current value of £22 million.

B17 Table B sets out this data (also see table 3, part 1 of this annex for more details).

Table B: Core Treasury capital budget

£ million	1999-00 Outturn	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Core capital budget	**4**	**3**	**7**	**1**	**1**	**3**	**3**	**3**	**3**
New accommodation				141					
Investments		20		-14					
100 Parliament Street land disposal						-22			
Total capital	**4**	**23**	**7**	**128**	**1**	**-19**	**3**	**3**	**3**

Core Treasury staff numbers

B18 After some years of staff vacancies, staff numbers in the Treasury rose in 2001-02 and 2002-03 consistent with targets to reduce the numbers of staff working long hours and help widen the diversity of people working in the Treasury.

B19 During 2004-05, as part of the implementation of the O'Donnell review, responsibility for tax policy was transferred to the Treasury from the HM Revenue & Customs. As part of this machinery of government change 150 full-time equivalent (fte) posts were transferred to the department during 2004-05.

B20 Following the 2004 Spending Review the Treasury set out its plans to secure efficiencies within the department with the publication of its Efficiency Technical Note in October 2004[37].

B21 To support the Treasury's plans to deliver its financial efficiency targets by 2008 the Treasury has committed to reducing the number of fte staff employed in the department by 150 between April 2004 and April 2008.

B22 During 2004-05 the Treasury has secured efficiencies in working practices and processes which have enabled it to make good early progress on its fte reduction target. By April 2005 efficiencies had been secured leading to a reduction of 100 ftes.

B23 For a detailed breakdown of the staff numbers for the whole Treasury group see Table 6, part 1 of this annex.

[37] available on the Treasury website at http://www.hm-treasury.gov.uk/about/departmental_reports/deptreport_index.cfm

C HM TREASURY GROUP EFFICIENCY PLANS AND PROGRESS

C1 The Treasury Group (including the OGC and DMO) published its efficiency technical note in October 2004 committing it to securing £17.7 million of efficiencies by 2007-08 (equivalent to 7.5 per cent of the Treasury Group's Departmental Expenditure Limit (DEL)). The 'core' Treasury will deliver £11.9 million of efficiencies, the Office of Government Commerce will deliver £4 million, the Debt Management Office will deliver £1 million, and OGCbuying Solutions will deliver £0.8 million.

C2 Subsequent to the publication of the efficiency technical note, and as the Group's plans to deliver its efficiency commitments have been developed in more detail, a further £0.9 million of efficiencies have been identified in productive time which will be delivered by OGCbuying.solutions by 2007-08. This brings the total amount of efficiencies that will be delivered over the 2004-08 period by OGCbuying.solutions to £1.8 million and for the Treasury Group to £18.7 million.

Table A: Treasury Group - Efficiency plans: summary progress to date

£ million	Target 2007-08	Progress to date (April 2005)
Core Treasury	11.9	3.6
DMO	1.0	0.5
OGC	4.0	0.7
OCGbuying.solutions	1.8	0.5
Total	**18.7**	**5.3**

CORE TREASURY

Efficiency Plans

C3 The core Treasury's efficiency plans focus on four areas:

- policy resources which are better focussed on delivering PSA targets effectively and efficiently;
- a policy resource that is able to respond more flexibly to new priorities;
- high quality, value for money corporate services aligned with the front-line directorates within the organisation; and
- a best practice procurement strategy that delivers value for money.

These translate in to four specific workstreams against which performance is measured.

Policy, Funding and Regulation (PFR)

C3 This workstream focuses on how we can deliver our policy objectives more effectively, and includes reducing both staff and non-staff costs in order to deliver £7 million of efficiencies by 2007-08. Activities to support delivery in terms of staff costs include: reviewing current working practices and workflow processes and redesigning them where appropriate; reviewing team and management structures within directorates;

and upskilling policy functions, for example through encouraging better use of project management techniques and increasing delivery of policy briefing through alternative channels (e.g. through the Treasury intranet). For non-staff costs, activities include: improving the percentage of directorate purchases made through central contracts; and improving the management information provided to Treasury teams on procurement.

C4 £4 million of the £7 million savings made will be recycled into new policy activities as they emerge during the 2005-08 period.

Corporate Services

C5 This workstream focuses on the ways in which the Treasury will be reviewing and reorganising its corporate services in order to achieve value for money while retaining a highly skilled and high quality corporate services function. Activities in this area will deliver £1 million of efficiencies by 2007-08, and include: a major restructuring of the Human Resources (HR) function (see Box 1); reviewing Information Services (IS) (see Box 2); automating wherever practicable financial process; and moving to a shared service centre with the OGC for financial services in 2005-06.

Procurement

C6 This workstream will deliver £1 million of efficiencies by 2007-08 through improvements to the Treasury's procurement strategy - delivering a best practice, value for money procurement strategy. Activities to support this include: securing economies of scale through sharing of services with HM Revenue and Customs, for example the Post Room function, and maximising income opportunities through sub-letting of the building; and reviewing, and reducing where appropriate, levels of IT procurement.

Programme

C7 The programme workstream will secure £2.9 million of efficiencies by 2007-08. Activities to support this include efficiencies secured through improvements to services provided by the Royal Mint (such as the production of coinage), and those provided by the Bank of England (such as reserves management), along with outsourcing the Treasury Group's Gilts Registration activities to a private sector provider (this has now gone live and is managed by Compuserve).

C8 In addition, to support the delivery of its efficiency plans, the core Treasury has agreed a target reduction in headcount of 150 full time equivalent staff over the SR2004 period, and, in response to the Lyons review, the Treasury also plans to relocate its financial processing function (11.5 posts) out of London to a shared service centre with the OGC.

Box 1: HR Transformation

The Treasury recognises that in order to become a world class finance ministry, it must have an HR function capable of ensuring that staff are equipped to meet the challenges facing them, and that managers can manage both the people and business processes effectively and efficiently.

Following a Better Quality Services Review of the existing HR function carried out in the summer of 2003, the Treasury has been undergoing a transformation of its HR function. The review highlighted the need to change from a relatively reactive and process-orientated function, to one that could add value and take a more proactive role in achieving the Treasury's strategic goals. While the transformation process is ongoing, there have already been clear successes – the Treasury has defined a new HR strategy, created new more strategic and proactive HR roles with signficantly fewer staff, and taken a rigorous approach to selecting high quality professional HR people to fulfil these brand new roles.

Specific achievements so far include:

- a network of HR Business Partners embedded in Directorates who provide dedicated front-line support;
- smaller more expert teams at the centre;
- working with HM Revenue and Customs to create a joint Health and Safety Team;
- a redeveloped HR intranet site which gives all staff easy access to up to date HR management policies, and is an effective tool for managers when undertaking a range of HR processes; and
- as responsibility for management process is increasingly devolved to line managers, we are undertaking a continuous programme of upskilling to ensure our managers are equipped with the relevant knowledge and tools.

Future improvements will focus on the creation of a Shared Services function with Cabinet Office and the Office of the Deputy Prime Minister. This will enable shared management of back office functions and first line HR support for stakeholders. Vital to this initiative will be the further redefinition and simplification of key processes, policies and procedures.

Progress to date

C9 Progress to date on the core Treasury plans to meet its efficiency commitments includes:

- **Policy, Funding & Regulation** (PFR). As of April 2005, £3 million of efficiencies had been secured in the PFR workstream, including:
  - merger of the Corporate Services Directorate and PERM directorate to create a single Ministerial & Corporate Services Directorate. By merging teams within the two directorates and replacing the Managing Director post that headed the Corporate Services Directorate with a Director post for the new combined operation savings of £220,000 will be generated from April 2005; and
  - better project management delivering savings across directorates, for example the 2004 Spending Review cost £90,000 less than the 2002 Spending Review. This was due to better management of staff resources resulting in £50,000 less overtime costs and better management of the preparation and document production costs (a saving of £40,000).
- **Corporate Services**
  - restructuring the Human Resources function (see Box 1) - the Treasury has been implementing a programme to upskill and restructure its Human Resource function. Savings from April 2005 will be at least £300,000; and
  - restructuring the Information Services function (see Box 2) - during 2004-05 the Treasury has begun a programme of reviewing and restructuring its Information Services function. This will generate savings from April 2005 of £300,000.

Box 2: IS Transformation

During 2004-05, IS have delivered efficiencies through a number of projects, including:

- restructuring the IT Helpdesk into an IS Support Group as part of the first phase of the wider IS Improvement Programme. This restructuring has included redefining functions with new roles and responsibilities based on industry best practice, and delivers better customer service and operational efficiencies to the business. Work is ongoing to introduce best practice processes and to integrate the Support Group within the overall operations of the IS team;

- the development of applications to deliver greater efficiencies in Treasury working:

  - a newly procured electronic document and records management (eDRM) system that has been successfully piloted and is being provided to all staff in a staged implementation. An associated best practice awareness programme has been run for all teams; and

  - a cross-departmental project to produce a single, Treasury owned, centralised information source for those teams involved in the production of the Pre Budget Report (PBR), Budget and Finance Bill. The system improves efficiency by reducing current manual processes and the need for data duplication. It will have been employed over a complete PBR, Budget and Finance Bill cycle before it goes fully live for PBR 2005.

- the IS Team continues to play a central role in the embedding of project and programme management and governance across the Treasury, including improved scoping and business requirements definition.

Work on the second phase of the IS Improvement Programme will conclude in 2005-06. Key elements include:

- the definition and agreement of IS team objectives more closely aligned with the needs of the business, together with strategies to achieve them;

- the creation of a User Services Catalogue with agreed Service Levels;

- a review of the IS team organisation to ensure its structured to deliver the right service to meet the Department's business requirements;

- a review of library services; and

- a design of a Central Records Group following the introduction of the Treasury's new eDRM system.

In the second half of the year there will be an evolution phase of the programme as the new IS organisation, processes and procedures are put into place and established.

OFFICE OF GOVERNMENT COMMERCE

Efficiency plans

C10 Currently 13 projects have been identified to deliver OGC's efficiency targets - these are managed within a formal programme structure, and each project has an owner at Director level to ensure plans are implemented. These projects affect all OGC Service Areas and so buy-in and commitment throughout the programme lifecycle is key to its success.

C11 In responding to the Efficiency Review, departments have also been asked to consider relocation plans following the Lyons review. OGC plans to transfer up to 35 posts from central London which will be phased as natural recruitment opportunities occur.

C12 OGC's efficiencies are divided into three main workstreams:

- Corporate Services;
- Procurement; and
- Productive Time.

C13 Restructuring **Corporate Services** will save £1.5m by 2007-08 and includes reviewing: Programme and Project support; Travel & Subsistence efficiency (including greater use of videoconferencing); streamlining communications; administrative support; HR service efficiencies; and shared services (in particular shared accounting with HM Treasury, the Debt Management Office and the Statistics Commission).

Securing better value for money in **Procurement** will save £0.4m and includes: shared contracts (collaboration; aggregation); and procurement (e-commerce and vfm deals).

Improving resource utilisation through **Productive Time** (£2.2m) addresses: use of consultants; workspace provision; electronic information management; simplifying working practices; and generating additional income.

Progress to date

C14 Total planned savings during 2004-05 were £0.5 million. To date, OGC has succeeded in securing gain totalling over £0.7 million.

These gains have been realised in areas including:

- savings in the procurement of contracted goods and services (£328,000);
- centralising programme office functions and releasing posts (£189,000);
- the rationalisation of administrative support (£80,000);
- the more efficient use of centralised printing and events management funds (£70,000);
- economies in postage, stationary and document management costs (£47,000);
- workspace rationalisation including rent reviews (£15,000); and
- reduced headcount and recruitment costs in HR.

C15 The target for 2005-06 is £1.5 million and for 2006-07 £4 million, to be fully sustained or increased in 2007-08.

OGCBUYING.SOLUTIONS

Efficiency plans

C16 Subsequent to the publication of the Treasury Efficiency Technical note OGCbuying.solutions has now committed itself to delivering a revised target of annual efficiencies of £1.8 million by 2007-08. Its plans focus on three key workstreams:

- Productive time – with plans to secure £0.9 million of productive time savings by continuing to reduce the ratio of internal costs to value for money improvements;
- Procurement – with plans to secure £0.5 million of procurement savings per annum through the more efficient purchase of goods and services; and
- Relocation - with plans to secure £0.4 million through the relocation of its existing operation in London to Liverpool.

Progress to date

As of April 2005, OGCbuying.solutions has secured £0.5 million of efficiency savings through:

- £0.2 million of productive time savings through an improvement in the ratio of internal costs to public sector value for money improvements; and
- £0.3 million of procurement savings through the reduction in the cost of delivery of some of its support services.

UNITED KINGDOM DEBT MANAGEMENT OFFICE

Efficiency plans

C17 The DMO's Managing Board will spearhead the agency's programme to deliver its contribution to the efficiency programme and will be responsible for monitoring the delivery of the estimated savings highlighted below. To help support the range of efficiency initiatives, the DMO has access to a small, dedicated project management office and a structured and embedded programme and project management infrastructure.

C18 The most important risk issue for the DMO is the question of whether by realising an efficiency initiative, an unacceptable operational risk associated to an initiative may be introduced into the business. In this regard for the Efficiency Review, as with all other areas of work involving change management, the OGC has taken a conservative approach. This is necessary because the cash flows associated with the operational side of the DMO's day-to-day business are so large that the cost of any increased operating risks can vastly outweigh the saving generated.

C19 In terms of numbers, the DMO has committed to delivering annual efficiencies of £1 million by 2007-08 which will be achieved as follows:

Corporate Services

C20 The DMO intends to centralise activities – such as settlement, accounting and preparation of management information - to those teams within the agency that have a comparative advantage in such work. It also intends to migrate processes which have hitherto been undertaken on legacy systems to the DMO's core systems, re-engineering Corporate Services Processes. It is estimated that this will generate save £0.3 million of savings per annum.

Procurement

C21 The DMO estimates that it can generate annual savings of £0.6 million. Securing better value for money in Procurement will save £0.6m. Measures include the following procurement-related initiatives:

- negotiating supplier price reductions in specific business areas;
- investment in new technology that will be easier to maintain;
- where appropriate, increased sharing of facilities with other parts of Whitehall; and
- increased internal staff expertise and capability, reducing need for in-sourced services.

Transaction processing

C22 The DMO estimates that it could generate annual savings of £0.1 million by carrying out a transactional processing-related financial service in-house that it currently out-sources to an agent.

Progress to date

C23 To date, £0.52 million in savings have been secured through the procurement workstream from:

- reduced banking costs resulting through the de-materialisation of sterling Treasury Bills created £0.3 million efficiencies; and
- reduction in London Stock Exchange listing fees securing £0.24 million of savings.

C24 The DMO Efficiency Review programme is on-course to deliver the target level of £1million savings per annum by 2007-08, although it will continue to seek out other areas of savings and implement these where it is risk-effective.

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