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

HM Treasury

Resource Accounts 2003 – 04

LONDON: The Stationery Office
HC 920

19 July 2004
£10.50

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(For the year ended 31 March 2004)

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CONTENTS

OPERATING AND FINANCIAL REVIEW

Scope of these accounts

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

Box 1: HM Treasury's aim and objectives

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

Objectives:

- maintaining a stable macroeconomic framework with low inflation;
- maintaining sound public finances in accordance with the Code for Fiscal Stability;
- 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;
- increasing the productivity of the economy;
- securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;
- expanding economic and employment opportunities for all;
- promoting a fair and efficient tax and benefit system with incentives to work, save and invest;
- improving the quality and the cost effectiveness of public services;
- achieving a high standard of regularity, propriety and accountability in public finance;
- protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies (from 1.4.03.).

2. Objectives cover the full range of departmental activity over the medium term. Public Service Agreement (PSA) targets identify the specific priorities that we aim to achieve in order to measure progress towards the objectives in the three year timeframe covered by the spending plans. In the period covered by the Spending Review in 2002 (SR02), seven of the Treasury's objectives had related PSA targets –performance against them is reported in the Departmental Report and the Autumn Performance Report.

3. As the UK's finance ministry, HM Treasury is responsible for the finance function of Government as a whole, as well as for its own business as a Department. These accounts relate only to Treasury's own business. They include the resources engaged in managing the Government's overall finances, but not the substantive transactions managed. These are accounted for separately –see note 1 .2 to these accounts.

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

Organisational structure

5. The Treasury has three distinct operating units:

- **The core of the Department.** Advice to Ministers on management of the core Treasury comes from a Treasury Management Board, which comprises the Permanent Secretary, the six Managing Directors of the core Treasury, the OGC Chief Executive and two non-executive Directors.

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

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

6. Each of these business units has its own Audit Committee. Their non-executive members were Christopher Swinson (Chair) and Margaret Exley (core Treasury); James Barclay (Chair to 20 January 2004) and Colin Price (Chair from 21 January 2004) (DMO); and Colin Thwaite (Chair), Brian Glicksman and David Fisher (OGC).

7. The notes to the Accounts provide analysis of Treasury's expenditure and information in respect of management, staffing, remuneration and pensions. Several of the analyses in the accounts include separate figures for the OGC and HMT (i.e. the core Treasury and the DMO together). Figures for the DMO alone are reported in its separately published accounts.

The core Treasury

Activities

8. The core Treasury's main activities are:

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

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

9. Much of this work is undertaken in partnership with other bodies. During 2003-04 the Treasury had lead policy responsibility for the Statistics Commission (an advisory non-departmental public body (NDPB)) and the Public Services Productivity Panel (an advisory NDPB). The Treasury also:

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

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

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

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

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

- is responsible for Troika Insurance Company Limited, which provided aviation insurance against acts of war or terrorism for events prior to 1 November 2002. The £5 million loan note which provided Troika's regulatory capital ran out on 19 March 2004. Troika was de-authorised by FSA on 15 March 2004. Troika is currently in the process of being wound up by liquidators.

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

- the payment of pensions to former Members of the European Parliament, and salaries of current MEPs, payments under the Civil List Act and Royal Household Pension Scheme. These are Standing Services of the Consolidated Fund which are included in the Treasury's Resource Budget, but outside the boundary of these resource accounts;
- grant support to certain Parliamentary bodies: the Inter-Parliamentary Union; the Commonwealth Parliamentary Association; the British American Parliamentary Group and the British-Irish Inter-Parliamentary Body; and
- expenditure associated with the award of Honours and Dignities. Responsibility for most of this expenditure was transferred to the Cabinet Office from 1 December 2003.

Results in 2003-04

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

- in its Departmental Report;
- in the Economic and Fiscal Strategy Report and Financial Statement and Budget Report, March 2004; and
- on the Treasury website (www.hm-treasury.gov.uk).

11. 2003-04 has been another successful year for the Treasury. The economy has continued to perform well, with unemployment, interest rates and inflation at historically low levels. Key achievements in 2003-04 have been:

- Assessment of the five economic tests for joining the European single currency was completed in June 2003 and has been accepted as authoritative in all quarters.
- The independent inquiry financed by Treasury into the situation arising at the Equitable Life Assurance Society submitted its report. Its costs in 2003-04 totalled £583.4k and are included in these accounts within the core Treasury's expenditure. The inquiry's total costs from 2001-02 to 2003-04 were £2,452k.
- A major review of the organisational arrangements to achieve Government's tax objectives. The review was chaired by Gus O'Donnell, Permanent Secretary to the Treasury, working with the revenue departments and their Chairmen and reporting to Treasury Ministers. The recommendations of the O'Donnell Review were reported alongside the Budget in March 2004. This included the recommendation to form a merged HM Revenue and Customs Department in addition to tax policy functions being transferred to HM Treasury.
- Significant progress on our internal change programme "Building on Su ccess" the themes of which are fully consistent with wider civil service reform and public sector delivery.

Events since 31 March 2004

12. On 12 July the Chancellor announced the results of the 2004 Spending Review.

13. A number of changes to the Treasury's senior management team have been announced. Over the course of 2004-05 Nicholas Stern will focus on his new role as Director of Policy and Research for the Commission for Africa. He will remain a member of Treasury Management Board. From the end of July 2004, Nicholas Macpherson, currently Managing Director of the Public Services Directorate (PSD) will take over from Nick Stern as Managing Director of Budget and Public Finances (BPF). Mary Keegan will be taking over from Professor Sir Andrew Likierman as Managing Director in charge of Government Financial Management, taking up her post on 6 September 2004.

The future

14. The core Treasury is now fully staffed, following a fall in the late 1990's. Staff numbers are set through the annual business planning process. Over the next few years, staff numbers are expected to stay broadly stable as a transfer of funding and posts from the revenue departments following the conclusions of the O'Donnell Review broadly offsets the impact of the freeze on administration costs of core Treasury at 2005-06 levels until 2007-08.

15. No significant investment in fixed assets or investments is planned.

16. Coinage spending will continue to be determined by demand.

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

Debt Management Office

Activities

18. The DMO was established on 1 April 1998 to carry out the Government's debt management policy of minimising financial costs over the long term, taking account of risk and managing the aggregate cash needs of the Exchequer in the most cost effective way. This contributes to Treasury objective 2 (see box 1 above).

Results in 2003-04

19. The DMO's net operating costs were within the planned budget for 2003-04 at £8.0 million, an increase of £0.2 million on 2002-03.

20. During 2003-04 the DMO secured efficiency savings in its external settlement expenditure following the de-materialisation of Treasury Bills and re-engineering of the internal structure of the agency. However, these costs were offset by an increase in expenditure in other areas including the first full year salary costs of new staff appointments during 2002-03. This had the effect of increasing the net operating costs by 2.6% from the previous year.

Events since 31 March 2004

21. There have been no significant or unexpected events since 31 March 2004.

Office of Government Commerce

Activities

22. The OGC was created in April 2000 to lead a wide-ranging programme to modernise procurement in central civil Government and deliver substantial value for money improvements. The overall role and purpose of OGC (its vision) is to work with central civil Government as a catalyst to achieve best value for money in commercial activities. It has an executive agency, OGCbuying.solutions, which has trading fund status.

Results in 2003-04

23. OGC's primary target for 2000-01 to 2002-03 was to work with central civil government to deliver £1 billion of value for money savings from commercial activities (target 10 of the Treasury's PSA 2001-04). To underpin the delivery of this target, for 2003-04 OGC had ten key delivery st rategies. These are set out in the table below.

KEY DELIVERY STRATEGIES

1. Realise OGC's vision by establishing and continuously developing OGC as a centre of excellence, with a highly motivated staff of suitably skilled and experienced practitioners.
2. Help civil Government departments secure value for money through use of best practice techniques.
3. Achieve value for money by catalysing the sharing and exchange of knowledge about Government commercial activity.
4. Drive forward improvements in the management of large, complex and/or novel projects involving the acquisition of third party goods, works and/or services.
5. Catalyse and facilitate commercial relationships with suppliers and partners that generate value for money.
6. Ensure that staff in central civil departments have the professionalism and skills to meet the needs of all aspects of Government commerce in the 21st century.
7. Implement and continue to develop a process for the strategic management of key suppliers so that value for money is gained from these relationships.
8. Achieve effective competition for Government business through simplified access to the Government market place for suppliers.
9. Realise a step change in efficiency by catalysing the use of e-procurement for Government's interactions with its supply base.
10. Support the wider public sector in the achievement of value for money.

24. OGC has made excellent progress against its PSA target, reporting savings of £1.6 billion during 2003-04.

Further information can be found in:

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

The future

25. During 2004-05 OGC will build on achievements to date. A new and more challenging PSA target has been agreed:

- By 2005-06, to deliver £3 billion of value for money gains in central civil Government procurement through the Office of Government Commerce. Results for 2003-04 will be known by Autumn of 2004.

26. To deliver the PSA target, OGC and departments have agreed seven OGC key priorities:

- Develop and manage the Gateway process (a system of peer review for major projects);
- Improve the commercial skills available to departments;
- Improve government's ability to manage supplier relationships;
- Make the government marketplace more attractive to suppliers in all sectors;
- Develop innovative tools and techniques and more effective ways of achieving private sector involvement;
- Help departments to embed best practice (including operational guidance) and cross-government lessons learned in their commercial activities;
- Catalyse collaborative opportunities (including aggregation deals).

27. To underpin the collaborative work that will be driven forward by OGC and departments in achieving these priorities, a Joint Action Plan has been drawn up with central civil Government departments. The plan sets out the actions that will be driven by OGC and departments in support of each of the key priorities, and will be published as part of OGC's Business Plan for 2004-05.

Financial position and results in outline

Financial position (Schedule 3)

28. The Treasury's activities are predominantly financed by Supply voted by Parliament. The Treasury's balance sheet is dominated by its shareholding in the Bank of England (note 16.1), which is valued in line with the Bank's net assets at some £1.5 billion. Other significant assets and liabilities include:

- the operational offices and office equipment used by the three business units (note 15).
- investments in Partnerships UK, the Royal Mint, and a number of former nationalised industries (note 16).
- the surplus property portfolio (note 18), and the Whitehall heating and power systems managed by OGC on behalf of Government as a whole.
- Provisions relating to surplus property portfolio and early retirement costs (note 23).
- the long term creditor for the 1 Horse Guards Road PFI contract (note 15.2 and note 22).

Financial results (Schedules 1 and 2)

29. Net expenditure on Request for Resources (RfR) 1, which covers core Treasury (other than coinage expenditure) and the DMO fell by £63.9 million to £221million. The principal cause of this decrease was the one off charge the previous year associated with the move into 1 Horse Guards Road, primarily an exceptional item of £69.4 million charged in 2002-03 relating to the building revaluation.

30. There was a £5.2 million increase in staff costs over the preceding year. Part of this increase reflected the full year impact of the increase in staff numbers during 2002-03.

31. Net expenditure on RfR1 was £0.9 million less than Estimate.

32. Expenditure on coinage (RfR 2) was £34.1million. This was about level with spend in 2002-03 and £1.6 million less than estimate.

33. OGC achieved an outturn of £36.4 million, against its RfR 3 estimate of £40.9 million, an underspend of £4.5 million. This underspend is largely attributable to programme transactions on surplus leasehold properties where the timing of transactions is subject to the uncertainties prevalent in property dealings.

34. The net cash requirement outturn was £187.5 million compared to an estimate of £198.0 million, an underspend of £10.5 million.

Cash flows (Schedule 4)

35. The cash flow statement shows a net cash outflow from operating activities of £121.1 million, compared to a cash outflow in 2002-03 of £73.3 million. This arose from loss of Troika income and payment by the OGC of a large creditor relating to their 2002-03 property transactions. It also reflects an increase in staff costs of some £5 million on the previous year.

36. Payments to the Consolidated Fund fell from £161.4 million in 2002-03 to £144.2 million in 2003-04.

Management

Ministers and senior officials

37. Note 4.3 identifies the Treasury's Ministers and senior officials during 2003-04.

Appointment of Permanent Secretary and Management Board

38. The Permanent Secretary is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Chancellor of the Exchequer. This is a permanent appointment under a Senior Civil Service contract. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

39. Other members of the Management Board are appointed by the Permanent Secretary. These are permanent appointments except for Sir Andrew Likierman and Sir Peter Gershon who had fixed term contracts under the standard Senior Civil Service arrangements. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

Register of interests

40. Senior management within the Treasury are required to complete a declaration of any interests. No interests have been declared apart from the following:

41. James Sassoon is a director of Partnerships UK. He receives no remuneration in respect of this directorship.

42. John Kingman is a board director of the European Investment Bank. This appointment is made by the Chancellor of the Exchequer as Governor of the Bank, in which UK Government has a shareholding and whilst it is remunerated, the funds flow to the Treasury. He is also a non-executive director of Framestore CFC, a visual effects company. Framestore has no commercial relationship with the Treasury or any of its related bodies and the post is not remunerated.

Remuneration of Ministers and Board Members

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

44. The Permanent Secretary's remuneration, and that of two other members of the management board, is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, Col 245-247).

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

46. Further details on remuneration are set out in note 4 to these accounts.

Diversity and Equality

47. The Treasury aims to create an inclusive environment that values and harnesses diversity to improve the organisation's effectiveness and to reflect the society we serve. Policies are in place to guard against discrimination and aim to ensure that there are no unfair or illegal discrimination barriers to employment and advancement.

48. The Treasury has published a Race Equality Scheme under the Race Relations (Amendment) Act 2000. Reasonable adjustments are made to meet the needs of prospective and existing employees who have disabilities. The Treasury offers a wide range of support to people to help them to achieve a work/life balance including a dependent care package, alternative work patterns and home working.

49. The department has appointed a diversity champion and has established staff network groups to work with management to ensure that relevant issues are considered in all internal processes and procedures.

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

Payment of Suppliers

51. The Treasury's target is to make all payments not in dispute within 30 days or less of acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2003-04 HMT achieved a performance of 81% against this target. The shortfall in performance arose during the period of transition to a new financial information system towards the end of 2002-03 which impacted into the new year. There has subsequently been a recovery in performance.

52. Over the same period, the OGC achieved a performance of 99.97%.

Communication with staff

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

Auditors

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

Cost of statutory audit services for the year ended 31 March 2004

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

The Comptroller and Auditor General also undertakes other statutory activities that are not related to the audit of the Treasury's financial statements. During the course of the year he undertook one examination of the economy, efficiency and effectiveness with which the Treasury and the Office of Government Commerce used their resources under the National Audit Act 1983 (value for money studies): *Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively* (HC 361 2003-2004, 12 March 2004).

Gus O'Donnell
Permanent Secretary
15 July 2004

STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

The Accounting Officer's responsibility for the keeping of proper records includes the responsibility for the maintenance, integrity and upkeep of the resource accounts on the HMT website.

Gus O'Donnell
Permanent Secretary 15 July 2004

STATEMENT ON INTERNAL CONTROL 2003-04

1. Scope of responsibility

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

1.2 The Treasury has three distinct operating units:

- The core of the Department. The Treasury is managed by the Permanent Secretary supported by the Treasury Management Board which includes the Permanent Secretary, the six Managing Directors of the core Treasury, the OGC Chief Executive and a non-executive Director. The Chancellor is the responsible Minister supported by his ministerial team comprising of the Chief Secretary, the Paymaster General, the Financial Secretary and the Economic Secretary.

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

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

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

2. The purpose of the system of internal control

2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HM Treasury for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

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

3.2 The Treasury aims to manage risks at the lowest level at which they are controllable. The Treasury Management Board (TMB) (whose members include the Managing Directors from each Directorate) maintains a high-level risk register which they review on a regular basis. Each Public Service Agreement (PSA) target owner also reports on progress to TMB on a regular basis highlighting targets which are at risk. All Directorates have a Business Plan, including an assessment of the risk to meeting targets. Directorates also maintain and regularly review risk registers throughout the year.

3.3 TMB also has a programme of regular horizon scanning in order to identify possible future events which may impact on Treasury objectives, and put in place means of mitigating any associated risks.

3.4 Treasury staff are trained in risk appraisal and management. Risk awareness is embedded in the Treasury Development Programme (TDP) courses, including training in public spending and project management, which all key staff undertake. TDP also covers Treasury Guidance on investment appraisal, a robust prioritisation methodology based on risk ranking and cost-benefit analysis. Best practice on managing risk has also been disseminated within the organisation during 2003-04 through a series of presentations and training sessions.

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

4. The risk and control framework

4.1 The Treasury is organised into operational directorates which carry main responsibility for major areas of work: financial regulation and industry; public services; macroeconomic policy and international finance; budget and public finances; and government financial management; as well as central directorates which provide corporate services and services to Ministers. Each directorate maintains a risk register, which is monitored by the directorate management teams.

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

4.3 Risks to Treasury's internal financial controls are reviewed as part of the devolved business planning process, with particular attention paid to risks with a high potential financial impact. Within the operational directorates, effective role definitions are in place for Directorate Budget Coordinator and Budget Liaison Officer roles, and responsibility for budgets is appropriately delegated. Treasury's Finance section issues formal guidance on the budgetary process, scrutinises Directorate budgetary reporting, and has two qualified financial analysts who act as liaison contacts for directorates on budgetary control queries or issues. At a strategic level, TMB receives monthly reports on budgetary performance, which include detail on the relationship between the budget, organisational objectives and Treasury PSA targets.

4.4 Formal programme and project management disciplines are used for the Budget and other key processes: for example, the assessment of the five tests for Euro membership. The Centre of Excellence provides advice, guidance and consultancy support on project management for Treasury Teams and who are working to embed the use of project management more widely throughout the organisation. As part of its management change programme the Treasury has a strategy for developing and managing its external relations with key stakeholders. A cross-directorate steering group is taking forward this work within the department.

5. Review of effectiveness

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

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

Board

- The Treasury Management Board (TMB) meets monthly to consider the plans and strategic direction of the Department (the Board comprises the Managing Directors of the Treasury and two external non-executive Directors).

- TMB maintains a core Treasury risk register and reviews this regularly.

- There are regular progress reports to TMB from managers responsible for the Treasury's PSA targets, which include the steps they are taking to meet key performance indicators and manage risks in their areas of responsibility.

- Directorates have business plans under a system which identifies and keeps up to date the key risks we face.

- There is regular monitoring of key operational information technology and information systems projects, in line with OGC guidance.

Audit Committee

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

Internal Audit

- The effectiveness of the department's risk management, control and governance processes are kept under review as part of the annual work plan of the Treasury Internal Audit team. Their plans and resultant reviews are monitored by the Audit Committee at their meetings in the year. The team operate to HM Treasury's Government Internal Audit Standards. During the year Treasury Internal Audit experienced staff shortages which led to a reliance on external support to deliver the required level of independent assurance to the Accounting Officer. The staff changes included the appointment of a new Head of Internal Audit in November 2003.

Risk Improvement Manager

- The Treasury has appointed a Risk Improvement Manager at the beginning of 2003-04 who has worked with directorates and team leaders during this year's business planning round, to improve risk management across the directorates.

5.3 The Treasury continues to monitor, test and where appropriate refine its approach to risk management. The Treasury's Internal Audit Team undertook an independent review of the risk management process during the year. The recommendations to further improve the risk management framework within the Treasury contained within the Internal Audit Team's report have been accepted and are currently being implemented. This review covered the elements provided in Treasury guidance and has formed an important input to my own review of the internal control environment.

Gus O'Donnell
Permanent Secretary 15 July 2004

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

I certify that I have audited the financial statements on pages 17 to 54 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 26.

Respective responsibilities of the Accounting Officer and Auditor

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

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

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

I review whether the statement on page 12 to 14 reflects the Department's compliance with Treasury Officer of Accounts' guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury Officer of Accounts, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

My opinion takes into account HM Treasury's view, as stated in note 1.2 on page 23, that investments with international financial institutions should not be recognised in these financial statements but disclosed in the Exchange Equalisation Account and the accounts of the Consolidated Fund, and the National Loans Fund.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of HM Treasury at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury Officer of Accounts; and

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

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

15 July 2004

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

SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2004

	Estimate			Outturn			Net Total Outturn compared with Estimated Saving/ (excess)	Prior Year Outturn
	Gross Expenditure	A-in-A	Net total	Gross Expenditure	A-in-A	Net total		
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 12)	234,635	(12,655)	221,980	233,674	(12,602)	221,072	908	284,949
Request for Resources 2 (Note 12)	35,714	–	35,714	34,107	–	34,107	1,607	34,449
Request for Resources 3 (Note 12)	55,287	(14,340)	40,947	50,143	(13,767)	36,376	4,571	39,971
Total Resources	**325,636**	**(26,995)**	**298,641**	**317,924**	**(26,369)**	**291,555**	**7,086**	**359,369**
Non-Operating Cost A-in-A			–			–	–	3,538
Net Cash Requirement			**197,955**			**187,475**	**10,480**	**174,283**

Summary of income payable to the Consolidated Fund

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

	Forecast 2003-04		**Outturn 2003-04**	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Total (Note 7)	30,480	*54,329*	44,227	*56,041*

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

Request for Resources 1: HMT (favourable variance £908k)

Accurate forecasting in support of Treasury's Spring Supplementary Estimate meant that the total net outturn on RfR 1 was within £1 million or less than half a per cent of the final net Estimate of £222 million. No individual section (line item) within the Estimate had a variance of more than £500,000 or 10%.

Request for Resources 2: HMT (favourable variance £1,607k)

The overall outturn on RfR 2 was £1.6 million or 4.5% under the Estimate amount of £35.7 million. The net Estimate comprised £32 million for coinage spending with the Departmental Expenditure Limit (DEL) and an Annually Managed Expenditure (AME) amount of £3.7 million for the cost of capital on the Royal Mint's net assets. The outturn on coinage spending was £31.8 million, £0.2 million under the Estimate. The AME outturn was £2.3 million, which was £1.4 million or 37% underspent. Cost of capital charges are based on the Royal Mint's average net assets for the financial year, and so cannot be precisely forecast at the beginning of the year. At the time of the Spring Supplementary Estimate, the Mint's closing net assets and the actual cost of capital were accurately forecast, but the Estimates process only allows for Estimates to be increased, not reduced during the year.

Request for Resources 3: OGC (favourable variance £4,571k)

The overall outturn on RfR 3 was £4.6 million or 11% under the Estimate amount of £40.9 million. The underspend against Administration Costs (£1.3 million) is largely attributable to the slower than anticipated recruitment of staff following OGC's reorganisation under its Medium Term Strategy. The balance of the underspend (£3.2 million) is attributable to the vagaries of the timing of transactions associated with the Residual Estate property portfolio. The consequence of these underspends and the deferred expenditure on capital projects, is the underspend against the Net Cash Requirement.

Explanation of the variation between Estimate and Outturn (Net Cash Requirement) (favourable variance £10,480k)

The underspend against the Net Cash Requirement is made up of the following main elements:

- The £7 million overall underspend on Total Resources, mainly on RfRs 2 and 3 as explained above. Within Total Resources, non-cash costs were underspent by £2.5 million, meaning that the net cash savings on resources was £4.5 million; and
- Improved debtor collection, contributing to savings of £4.4 million on estimated working capital flows; offset by
- Cash used on provisions, £2.4 million more than forecast.

Adjustment relating to previous periods

The Analysis of income payable to the Consolidated Fund total in the 2002-03 Resource Accounts Schedule 1 incorrectly included an amount of £1,817,996.31.

Reconciliation of resources to net cash requirement

	Note	Estimate net total	OGC	HMT	Net total outturn	Net Total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000	£000	£000
Total resources		**298,641**	**36,376**	**255,179**	**291,555**	**7,086**
Capital:						
Acquisition of fixed assets –cash	13, 14 & 15	7,668	2,396	1,370	3,766	3,902
Investments		–	–	–	–	–
Non-operating costs A-in-A:						
Proceeds of fixed asset disposals		–	–	–	–	–
Accrual adjustments						
Non-cash items	5 & 6	(129,391)	(6,443)	(120,405)	(126,848)	(2,543)
Changes in working capital other than cash	17	14,990	6,480	4,065	10,545	4,445
Changes in creditors falling due after more than one year	22	–	–	–	–	–
Use of provision	23	6,047	7,020	1,437	8,457	(2,410)
Net cash requirement (Schedule 4)		**197,955**	**45,829**	**141,646**	**187,475**	**10,480**

The notes on pages 23 to 54 form part of these accounts.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2004

			2003-04		2002-03 (restated)
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Administration costs					
Staff costs	4	15,403	55,085	70,488	66,092
Exceptional item –building revaluation		–	–	–	69,400
Other administration costs	5	28,069	54,995	83,064	87,894
Gross administration costs		**43,472**	**110,080**	**153,552**	**223,386**
Operating income	8	(11,488)	(5,623)	(17,111)	(21,475)
Net administration costs		**31,984**	**104,457**	**136,441**	**201,911**
Programme costs					
Request for Resources 1: HM Treasury					
Expenditure	6		122,586	122,586	120,565
Less: income	8		(46,131)	(46,131)	(75,007)
			76,455	**76,455**	**45,558**
Request for Resources 2: UK Coinage					
Expenditure	6		34,107	34,107	34,449
Less: income	8		(1,078)	(1,078)	(160)
			33,029	**33,029**	**34,289**
Request for Resources 3: OGC					
Expenditure	6	6,671	–	6,671	6,663
Less: income	8	(6,261)	–	(6,261)	(4,287)
Expenditure outside supply process		**410**	**–**	**410**	**2,376**
Bank of England Services	12	–	11,663	11,663	11,179
Net programme costs		**410**	**121,147**	**121,557**	**93,402**
Total net operating costs		**32,394**	**225,604**	**257,998**	**295,313**
Total net resource outturn	10	**36,376**	**255,179**	**291,555**	**359,369**

Income and expenditure are derived from continuing operations, except for income and expenditure related to Troika, which is a discontinued operation (Notes 8.2 and 16.2).

Comparators for 2002-03 have been restated as a result of a transfer of function (Note 3).

Statement of Recognised Gains and Losses
for the year ended 31 March 2004

			2003-04		2002-03
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Net gain/(loss) on revaluation of tangible fixed assets	15	1,227	(2,730)	(1,503)	4,825
Net gain/(loss) on revaluation of investments	16	–	54,449	54,449	(20,60 0)
Net gain on revaluation of surplus freehold property	18	1,096	–	1,096	1 ,657
Other recognised gains/(losses) for the financial year		**2,323**	**51,719**	**54,042**	**(14,118)**

The notes on pages 23 to 54 form part of these accounts.

SCHEDULE 3

Balance Sheet
as at 31 March 2004

		2004			2003 (restated)
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Fixed assets					
Intangible assets	14	819	1,115	1,934	1,535
Tangible assets	15	20,716	102,307	123,023	129,603
Investments	16	350	1,585,020	1,585,370	1,531,489
Total fixed assets		**21,885**	**1,688,442**	**1,710,327**	**1,662,627**
Current assets					
Surplus freehold property	18	4,496	–	4,496	3,400
Stocks	19	98	193	291	204
Debtors due within one year	20	7,275	39,343	46,618	66,524
Debtors due after more than one year	20	313	6,611	6,924	8,422
Investments	16	–	1,526	1,526	6,017
Cash at bank and in hand	21	6,006	12,210	18,216	102,482
Total current assets		**18,188**	**59,883**	**78,071**	**187,049**
Creditors: amounts falling due within one year	22	(14,804)	(67,782)	(82,586)	(203,723)
Net current assets/(liabilities)		**3,384**	**(7,899)**	**(4,515)**	**(16,674)**
Total assets less current liabilities		**25,269**	**1,680,543**	**1,705,812**	**1,645,953**
Creditors: amounts falling due after more than one year	22	–	(144,925)	(144,925)	(141,796)
Provisions for liabilities and charges	23	(23,873)	(4,372)	(28,245)	(30,622)
Net Assets		**1,396**	**1,531,246**	**1,532,642**	**1,473,535**
Taxpayers' equity					
Revaluation reserve	25	5,656	274,325	279,981	226,336
General fund	24	(4,260)	1,256,921	1,252,661	1,247,199
		1,396	**1,531,246**	**1,532,642**	**1,473,535**

Gus O'Donnell
Permanent Secretary

15 July 2004

The notes on pages 23 to 54 form part of these accounts.

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2004

		2003-04			2002-03 (restated)
		OGC	HMT	Total	Total
	Note	£000	£000	£000	£000
Net cash (outflow)/inflow from operating activities		**(42,693)**	**(78,450)**	**(121,143)**	**(73,383)**
Cash (outflow)/inflow from capital expenditure and financial investment		(2,380)	(1,371)	(3,751)	78,216
Payments of amounts due to the Consolidated Fund		(83,568)	(60,628)	(144,196)	(161,483)
Financing		44,003	140,821	184,824	183,411
Increase/(decrease) in cash in the period	21	**(84,638)**	**372**	**(84,266)**	**26,761**
Notes to the cash flow statement					
Reconciliation of operating cost to operating cash flows					
Net operating cost (Schedule 2)		32,394	225,604	257,998	295,313
Adjust for non-cash transactions	5, 6	(6,443)	(132,068)	(138,511)	(214,645)
Adjust for movements in working capital other than cash	17	9,722	(16,524)	(6,802)	(16,376)
Use of provisions	23	7,020	1,438	8,458	9,091
Net cash outflow/(inflow) from operating activities		**42,693**	**78,450**	**121,143**	**73,383**
Analysis of capital expenditure and financial investment					
Intangible fixed assets additions	14	726	565	1,291	1,174
Tangible fixed assets additions	15	1,670	806	2,476	7,415
Proceeds of disposals of fixed assets		(16)	–	(16)	(12,717)
Proceeds of disposal of surplus freehold property	18	–	–	–	(74,088)
Net cash (outflow)/inflow for capital expenditure and financial investment		**2,380**	**1,371**	**3,751**	**(78,216)**
Analysis of financing					
From the Consolidated Fund (Supply): current year		44,003	143,018	187,021	183,193
From the Consolidated Fund (Supply): prior years		–	–	–	461
Repaid to the Consolidated Fund (Supply)		–	–	–	(285)
Capital element of on balance sheet PFI repayments		–	(1,189)	(1,189)	(734)
Transfer to Cabinet Office in respect of Honours and Dignities		–	(1,008)	(1,008)	776
Net financing		**44,003**	**140,821**	**184,824**	**183,411**
(Increase)/decrease in cash	21	84,638	(372)	84,266	(26,761)
Net cash flows other than financing		**128,641**	**140,449**	**269,090**	**156,650**
Adjustment for payments and receipts not related to Supply:					
Amounts due to the Consolidated Fund –received in a prior year and paid over		(83,568)	(13,891)	(97,459)	(57,209)
Amounts overpaid to the Consolidated Fund		–	–	–	(10,419)
Repayment received from the Consolidated Fund		–	4,344	4,344	9
Amounts due to the Consolidated Fund –received and not paid over		756	8,547	9,303	83,701
Transitional adjustments		–	–	–	1,593
Transfer to Cabinet Office in respect of Honours and Dignities		–	1,008	1,008	(776)
Supply financed repayment of financing					
Capital element of on balance sheet PFI financing		–	1,189	1,189	734
Net Cash Requirement for the year (Schedule 1)		**45,829**	**141,646**	**187,475**	**174,283**

Amount of grant actually issued to support the Net Cash Requirement: £187,021,241.00.

The notes on pages 23 to 54 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2004

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

		2003-04			2002-03 (restated)
		Gross Expenditure	Income	Net	Net
		£000	£000	£000	£000
Objectives:					
(1)	Maintaining a stable macroeconomic framework with low inflation;	103,534	(16,118)	87,416	81,251
(2)	Maintaining sound public finances in accordance with the Code for Fiscal Stability;	31,079	(6,622)	24,457	38,088
(3)	Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the very vulnerable;	13,062	(773)	12,289	26,684
(4)	Increasing the productivity of the economy;	10,146	(607)	9,539	19,450
(5)	Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	61,945	(24,504)	37,441	17,977
(6)	Expanding economic and employment opportunities for all;	2,450	(206)	2,244	1,644
(7)	Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	8,534	(671)	7,863	12,881
(8)	Improving the quality and cost effectiveness of public services;	77,624	(20,262)	57,362	72,300
(9)	Achieving a high standard of regularity, propriety and accountability in public finance;	12,291	(801)	11,490	23,925
(10)	Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;	994	–	994	N/A
(11)	Other resources required not falling under HM Treasury's ten main objectives.	6,920	(17)	6,903	1,113
Net operating cost		**328,579**	**(70,581)**	**257,998**	**295,313**

Where direct expenditure or income falls under a single objective, it is allocated wholly to that objective; expenditure and income that serves more than one objective is allocated in accordance with estimates made by relevant managers within the department. Central expenditure not specific to individual objectives has been apportioned in proportion to directly allocated staff costs. The other resources not falling under the ten main objectives include the grants to the Parliamentary bodies and the Statistics Commission (£5.4 million) and the residual spending on Honours and Dignities (£1 million).

The main reasons for changes between years are the £69.4 million exceptional charge in 2002-03 arising from the valuation of 1 Horse Guards Road which was distributed across all objectives in the prior year, and £27.9 million of income in 2002-03 relating to Troika, which reduced the net cost of objective 5 in the prior year. (Troika is a discontinued operation in 2003-04 –see note 8.2).

Details of programme grants and other current expenditure are given in note 26.

The notes on pages 23 to 54 form part of these accounts.

NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the 2003-04 *Resource Accounting Manual* (RAM) issued by HM Treasury (HMT). The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The department's accounting policies have been applied consistently in dealing with items material in relation to the accounts.

1.1 Accounting Convention

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

1.2 Basis of Consolidation

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

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

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

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

1.3 Tangible Fixed Assets

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

The threshold for capitalising tangible and intangible fixed assets is £5,000 except for antiques where no threshold is set. With effect from 1 April 2003 the threshold for OGC was raised from £1,000 to £5,000.

Furniture and equipment and IT equipment are stated at the lower of replacement cost and recoverable amount and are subject to indexation.

The revaluation has been calculated in line with the indices provided by HM Treasury in PES (2004) 03 (Revised) SR2004 Forecast Indices for Assets.

Antiques in use are stated at estimated market value as at 1 March 2000, a revaluation will take place in 2004-05.

1.4 Intangible Fixed Assets

These represent software licences, which are stated at the lower of replacement cost and recoverable amount and are subject to indexation. The revaluation has been calculated in line with the indices provided by HM Treasury in PES (2004) 03 (Revised) SR2004 Forecast Indices for Assets.

1.5 Depreciation

Freehold land and antiques have not been depreciated.

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

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

1.6 Development Expenditure

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

1.7 Investments

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

(i) Public dividend stock held within the Royal Mint and OGCbuying.solutions, loan stock held in Troika Insurance Company Limited and bonds held in Partnerships UK are shown at nominal value;

(ii) Shares held in privatised industries are quoted at market prices as at 31 March 2004.

(iii) The investment in the Bank of England is shown at 100% of the Bank's net assets as at 29 February 2004. The investment in Partnerships UK is shown at 44.56% of its net assets as at 31 March 2004.

1.8 Stocks

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

(ii) Fuel oil is valued at current replacement cost.

1.9 Operating Income

Operating income relates directly to the operating activities of the department. It includes recharges at full cost for services provided and investment income. It includes budgeted and non-budgeted income arising from the activities of the Treasury, some of which is used to offset operational costs ("appropriated-in-aid") and some of which is payable to the Consolidated Fund directly ("not appropriat ed-in-aid"). Income from Pool Re is payable to HMT out of surplus funds recognised after a lapsed period whilst income from Troika is shown in the accounts relating to the underwriting year in question, being payable to HMT on a more immediate basis than Pool Re.

1.10 Administration and Programme Expenditure

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

1.11 Capital Charge

A non-cash charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the government's standard rate of 3.5% (2002-03: 6%) in real terms on the average carrying amount of all assets less liabilities except:

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

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

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

1.12 Foreign Exchange

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

1.13 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in Note 4. The defined benefit schemes are unfunded and are contributory. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

1.14 Early Departure Costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The department provides for the costs when the early retirement is agreed and binding on the department, effectively charging the full cost at the time of the decision and holding this in a provision. In the past the department has been able to settle some of its liabilities by making an advance payment to the Paymaster General's Account for the credit of the Civil Service Superannuation Request for Resources. The sum of the remaining advanced funding yet to be applied is included within the debtors balance. A provision has been established for the total liability falling on the department for all agreed early retirement cases gross of any advanced funding made. The liability shown in the balance sheet has been discounted using a 3.5% (2002-03: 6%) discount rate in line with HM Treasury guidance.

1.15 Surplus Property for Disposal

The OGC holds surplus property for disposal, consisting of vacant Civil Estate properties defined as exploitable sites.

Valuation

Freehold and long leasehold land and buildings are recognised as current assets for disposal at their market value at 31 March 2004. The properties are periodically independently valued at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors and are revalued in line with appropriate indices in the intervening years.

Leasehold Provisions

The leases on vacant leasehold properties are regarded as onerous contracts under Financial Reporting Standard (FRS) 12. Therefore, the future liabilities on leaseholds are provided for, and subsequently payments under the leases are charged against the provision. These liabilities are assessed on the basis of the net present value of the future outgoings associated with the lease, discounted at 3.5% (2002-03: 6%) in line with HM Treasury guidance.

1.16 Private Finance Initiative (PFI) transactions

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

1.17 Operating leases

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

1.18 Contingent liabilities

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

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

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

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

1.19 Value Added Tax

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

2.0 CHANGE TO ESTIMATION TECHNIQUE

With effect from 1 April 2003, the threshold for the capitalisation of expenditure by OGC on tangible and intangible assets was increased to £5k. This has had the following effect:

Schedule 1, 2 and 5: increase in expenditure of £420k.

Schedule 3: decrease in fixed assets as at 31 March 2004 of £1,417k.

3.0 TRANSFER OF FUNCTIONS TO CABINET OFFICE

On 1 December 2003, the responsibility for the costs of the award of Honours and Dignities (excluding Order of the Thistle and College of Arms) passed to the Cabinet Office. Following the disclosure requirements of FRS 6, the results, cash flows and assets relating to the transferred activities have been excluded from the start of the financial year. Prior year comparatives have been restated.

4. STAFF NUMBERS AND COSTS

4.1 Analysis of total costs over categories

Staff costs consist of:

	2003-04				2002-03
	Officials	Ministers	Special Advisors	Total	Total
	£000	£000	£000	£000	£000
Wages and salaries	52,644	1,489	527	54,660	52,717
Social Security costs	4,701	152	63	4,916	4,111
Other pension costs	7,412	–	96	7,508	7,095
Subtotal	**64,757**	**1,641**	**686**	**67,084**	**63,923**
Inward secondments and agency temps	3,404	–	–	3,404	2,169
Total costs	**68,161**	**1,641**	**686**	**70,488**	**66,092**
Less recoveries (income) in respect of outward secondments	(1,853)	–	–	(1,853)	(1,226)
Total net costs	**66,308**	**1,641**	**686**	**68,635**	**64,866**

	OGC	HMT	Total	Total
	£000	£000	£000	£000
Wages and salaries	12,323	42,337	54,660	52,717
Social Security costs	1,097	3,819	4,916	4,111
Other pension costs	1,747	5,761	7,508	7,095
Subtotal	**15,167**	**51,917**	**67,084**	**63,923**
Inward secondments and agency temps	236	3,168	3,404	2,169
Total costs	**15,403**	**55,085**	**70,488**	**66,092**
Less recoveries in respect of outward secondments	–	(1,853)	(1,853)	(1,226)
Total net costs	**15,403**	**53,232**	**68,635**	**64,866**

In addition to the above, £156,717 (2002-03: £94,000) of staff costs have been charged to capital projects. The costs of Special Advisors include the Council of Economic Advisors.

Recoveries of costs relating to staff seconded out to other organisations should normally be shown as income to the operating cost statement unless amounts are immaterial where they may be netted-off staff costs. For 2003-04 recoveries of £1,853,454 (2002-03: £1,226,000) are shown as income.

4.2 Whole-time equivalents analysed over objectives

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

4.2.1 OGC staff numbers

	2003-04							2002-03
Objective	Ministers	Special Advisers	Senior Manage-ment	Officials	Staff on Inward Second-ment	Agency temporary and contract staff	Total	Total
	Number	Number	Number	Number	Number	Number	Number	Number
8			1	381	4		386	431
Total			**1**	**381**	**4**		**386**	**431**

4.2.2 HMT (including DMO) staff numbers

	2003-04							2002-03
Objective	Ministers	Special Advisers	Senior Management	Officials	Staff on Inward Secondment	Agency temporary and contract staff	Total	Total
	Number	Number	Number	Number	Number	Number	Number	Number
1	0.5	1.1	0.7	99.8	1.0	3.6	106.7	105.1
2	0.6	1.5	1.0	226.5	1.0	4.1	234.7	235.6
3	0.6	1.4	2.0	142.6	2.0	4.1	152.7	152.1
4	0.5	1.2	0.8	123.1	3.0	2.7	131.3	134.8
5	0.4	0.9	0.6	75.0	2.0	2.3	81.2	72.4
6	0.1	0.3	0.2	44.9	2.0	1.6	49.1	64.2
7	0.4	0.9	0.6	82.0	8.0	3.5	95.4	97.6
8	1.3	3.2	2.1	196.5	4.0	10.1	217.2	179.5
9	0.6	1.4	0.9	102.2	–	4.3	109.4	87.7
10	–	0.1	0.1	11.5	–	0.7	12.4	–
11	–	–	–	–	–	–	–	–
Staff engaged on Capital Projects	–	–	–	3.5	–	–	3.5	3.0
Total	**5.0**	**12.0**	**9.0**	**1,107.6**	**23.0**	**37.0**	**1,193.6**	**1,132.0**

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

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

The salaries and pension entitlements of the most senior civil servants as a result of their employment by HM Treasury, and those of Ministers who have a direct influence on managing or controlling the activities of the Treasury were as shown pages 29 and 30. Salaries include gross salaries, performance pay or bonuses payable, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances and private office allowances and any other allowance to the extent that it is subject to UK taxation.

This presentation is based on payments made by the department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP is £56,358 (2002-03: £55,118) and various allowances to which they are entitled are borne centrally. The arrangement for Ministers in the House of Lords is different in that they do not receive a salary rather an additional remuneration which cannot be separated from their ministerial salaries. This total remuneration as well as the allowances to which they are entitled is paid by the department and therefore is shown in total in the figures in this account.

As the House of Commons and House of Lords (as appropriate) and not the Treasury meet the Exchequer contributions to the cost of pension provision for Ministers, Ministers' pension details are included on a 'for information"basis.

4.3.1 Salaries and pension entitlements of Ministers

	2003-04							2002-03	
Name	Ministerial salary received (£)	Benefits in kind (rounded to nearest £100)	Real increase in pension at age 65 (£k)	Total accrued pension at age 65 at 31/03/04 (£k)	CETV at 31/03/03 (nearest £k)	CETV at 31/03/04 (nearest £k)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £k)	Ministerial salary received (£)	Benefits in kind (rounded to nearest £100)
Gordon Brown *Chancellor of the Exchequer*	71,433	19,700	0 –2.5	10 –15	94	118	12	69,861	12,800
Paul Boateng *Chief Secretary to the Treasury*	71,433	–	0 –2.5	5 –10	54	75	12	64,438	–
Dawn Primarolo *Paymaster General*	37,055	–	0 –2.5	5 –10	44	55	5	36,240	–
Ruth Kelly *Financial Secretary to the Treasury*	37,055	–	0 –2.5	0 –5	8	14	2	34,830	–
John Healey *Economic Secretary to the Treasury*	28,125	–	0 –2.5	0 –5	10	16	3	23,070	–

4.3.2 Salaries and pension entitlements of Senior Management

Name	2003-04 Salary including performance pay (£k)	2003-04 Benefits in kind (rounded to nearest £100)	2003-04 Real increase in pension and related lump sum at age 60 (£k)	2003-04 Total accrued pension at age 60 at 31/03/04 and related lump sum (£k)	2003-04 CETV at 31/03/03 (to nearest £k)	2003-04 CETV at 31/03/04 (to nearest £k)	2003-04 Real increase in CETV after adjustment for inflation and changes in market investment factors (to nearest £k)	2002-03 Salary Including Performance Pay (£k)	2002-03 Benefits in kind (rounded to nearest £100)
Officials Gus O'Donnell *Permanent Secretary*	165 –170	4,700	5 –7.5 plus lump sum 17.5 –20.0	55 –60 plus lump sum 165 –170	756	890	95	145 –150	3,100
Sir Robert Culpin *Managing Director (to 24-10-03)*	Left HMT on 24-10-03.								
Jon Cunliffe *Managing Director*	110 –115	–	0 –2.5 plus lump sum 5.0 –7.5	30 –35 plus lump sum 90 –95	436	492	29	100 –105	–
Hilary Douglas *Managing Director*	120-125	–	0 –2.5 plus lump sum 5.0 –7.5	35 –40 plus lump sum 115 –120	603	669	30	110 –115	–
Professor Sir Andrew Likierman *Managing Director (part-time basis)*	65 –70	–	0 –2.5 plus lump sum 0 –2.5	10 –15 plus lump sum 30 –35	176	190	8	80 –85	–
Nicholas Macpherson *Managing Director*	110 –115	–	0 –2.5 plus lump sum 5.0 –7.5	20 –25 plus lump sum 70 –75	270	310	22	100 –105	–
James Sassoon *Managing Director*	160 –165	–	2.5 –5.0	0 –5	10	39	23	55 –60	–
Sir Nicholas Stern *Managing Director (from 6-10-03)*	85 –90	–	27.5 –30.0	25 –30	–	417	–	–	–
Margaret Exley *Non-Executive Director (TMB & Audit Committee)*	5 –10	–	N/A	N/A	N/A	N/A	N/A	5 –10	–
Robert Stheeman *Chief Executive DMO*	110 –115	–	0 –2.5	0 –2.5	4	24	15	25 –30	–
Sir Peter Gershon *Chief Executive OGC*	205 –210	5,000	Not part of scheme					195 –200	4,000

4.3.3 Salaries and pension entitlements of Ministers and Senior Management

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

Professor Sir Andrew Likierman was on a fixed term contract that came to an end on 31 December 2003 (age retirement), following which he moved to a consultancy basis contract pending the arrival of Mary Keegan. The total consultancy fees paid to Sir Andrew Likierman were £24k.

Sir Peter Gershon was employed as Chief Executive of the OGC under a fixed term contract, expiring on 31 March 2004. He has agreed to work for the Government for a further three months to lead the cross-Whitehall Efficiency Review exercise which is contributing to the 2004 Spending Review. In the event that the Prime Minister decides, on the advice of the Advisory Committee on Business Appointments that Sir Peter Gershon should serve waiting periods before he takes up new appointments outside Government, HMT have approved an agreement whereby they will continue to pay him up to his final salary on a retainer basis for a further nine months, with a claw back should his total earnings for 2004-05 exceed what they would have been had he remained at the OGC. Once the Efficiency Review is completed Sir Peter Gershon will continue as a Non-Executive member of HMT Management Board.

4.3.4 Pension entitlements and schemes: Ministers

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

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

Explanation of table at 4.3.1

Columns 5 and 6 of the above table show the cash equivalent transfer value (CETV) of the member's pension benefits accrued at the beginning and the end of the reporting period. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Column 7 reflects the real increase in the value of the CETV. It takes account of the increase in accrued pension due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

4.3.5 Pension entitlements and schemes: Senior Management and Officials

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Explanation of table at 4.3.2

Columns 5 and 6 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period.

Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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

4.4 Additional ministerial salaries borne by HM Treasury

In addition, the Treasury bears the ministerial salaries of the following, for the year ended 31 March 2004:

Official title	Name	**2003-04** Salaries	**2002-03** Salaries
		£000	£000
Prime Minister	Tony Blair	115 –120	115 –120
Chief Whip (Commons)	Hilary Armstrong	70 –75	65 –70
Deputy Chief Whip (Commons)	Keith Hill (to 13-6-03)	5 –10	35 –40
	Robert Ainsworth (from 14-6-03)	25 –30	–
Chief Whip (Lords)	Lord Grocott	110 –115	95 –100
Deputy Chief Whip (Lords)	Lord McIntosh (to 13-6-03)	20 –25	60 –65
	Lord Davies of Oldham (from 14-6-03)	90 –95	–
Lords in waiting (6 posts)		440 –445	415 –420
Government and Assistant Government Whips (14 posts)		345 –350	315 – 320

5. OTHER ADMINISTRATION COSTS

	2003-04 OGC	2003-04 HMT	2003-04 Total	2002-03 Total
	£000	£000	£000	£000
Rentals under operating leases				
Hire of plant and machinery	52	121	173	256
Other operating leases	3,908	1,121	5,029	8,016
	3,960	**1,242**	**5,202**	**8,272**
Interest charges				
On-balance sheet PFI contract (note 15.2)	–	10,435	10,435	6,783
PFI service charges				
Element of on-balance sheet contract (note 15.2)	–	3,807	3,807	3,406
Research and development expenditure	239	75	314	282
Non cash items				
Depreciation and amortisation of fixed assets	1,119	3,548	4,667	5,411
Indexation of liability on PFI contract	–	4,413	4,413	2,350
Loss/(gain) on disposal of fixed assets	(5)	128	123	678
Loss on revaluation of building (note 15.2)	–	–	–	69,400
Loss on revaluation of fixed assets	144	670	814	86
Loss on change in capitalisation threshold	1,417	–	1,417	3,112
Auditor's remuneration	40	91	131	153
Cost of capital	286	(1,797)	(1,511)	(620)
Provisions:				
Provided in year	626	3,291	3,917	5,978
Release of surplus provision	(199)	–	(199)	–
Unwinding of discount on provision	83	92	175	173
Increase in provision due to change in discount rate	150	61	211	–
	3,661	**10,497**	**14,158**	**86,721**
Other expenditure	20,209	28,939	49,148	51,842
Total	**28,069**	**54,995**	**83,064**	**157,306**

Reconciliation of non cash transactions appearing in Schedule 1

	2003-04 OGC	2003-04 HMT	2003-04 Total
	£000	£000	£000
Other administration costs –non cash items (as above)	3,661	10,497	14 ,158
Other non-cash amounts charged to operating expenditure	2,782	109,908	112,690
Total non-cash transactions	**6,443**	**120,405**	**126,848**

6. NET PROGRAMME COSTS

	2003-04	2002-03 (restated)
	£000	£000
Request for Resources 1: HM Treasury		
Current grants	5,424	1,841
Cost of capital	107,781	108,041
(Gain)/loss on revaluation of investments	(243)	417
Other current expenditure	9,624	10,266
	122,586	**120,565**
Request for Resources 2: UK Coinage		
Cost of capital	2,339	5,167
Other current expenditure	31,768	29,282
	34,107	34,449
Non-supply – Bank of England services (note 12.3)	11,663	11,179
Total HMT programme costs	**168,356**	**166,193**
Request for Resources 3: OGC		
Whitehall Systems running costs	2,360	1,874
Whitehall Systems depreciation	1,419	1,305
Cost of capital	817	1,742
Transfer to/(from) leasehold property provision	(3,678)	(1,772)
Transfer to/(from) specific dilapidations & legal provision	17	–
Unwinding of discount on provisions	760	1,926
Increase in provision due to change in discount rate	3,442	–
Other current expenditure	1,534	1,588
Total OGC programme costs	**6,671**	**6,663**
Sub total programme costs	**175,027**	**172,856**
Less programme income		
Request for Resources 1 –HM Treasury (note 8)	(46,131)	(75,007)
Request for Resources 2 –UK Coinage (note 8)	(1,078)	(160)
Request for Resources 3 –OGC (note 8)	(6,261)	(4,287)
	(53,470)	**(79,454)**
Net Programme Costs	**121,557**	**93,402**

7. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

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

	Forecast 2003-04		Outturn 2003-04	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts –excess A-in-A	–	–	3,922	*680*
Non-operating income and receipts –excess A-in-A	–	–	21	*21*
Sub total	–	–	3,943	*701*
Other operating income and receipts not classified as A-in-A	28,955	*50,785*	40,270	*51,832*
Other non-operating income and receipts not classified as A-in-A	10	*3,494*	14	*3,508*
Other amounts collectable on behalf of the Consolidated Fund	1,515	*50*	–	–
Total	**30,480**	***54,329***	**44,227**	***56,041***

8. INCOME AND APPROPRIATIONS-IN-AID

Operating income analysed by activities:

	2003-04 Appropriated in Aid	2003-04 Payable to Consolidated Fund	2003-04 Income included in OCS	2002-03 (restated) Income included in OCS
	£000	£000	£000	£000
HMT				
Administration income				
Central Treasury Activities	5,623	–	5,623	6,110
Programme income				
Request for Resources 1: HM Treasury				
Pool Re insurance premiums (note 8.1)	–	8,528	8,528	6,340
Troika insurance premiums (notes 8.2 and 16.2)	–	62	62	27,918
Bank of England dividend	–	29,600	29,600	34,300
Profit on disposal of investments	–	14	14	90
Other current programme income	6,979	182	7,161	5,157
Other dividends and interest	–	766	766	1,202
	6,979	**39,152**	**46,131**	**75,007**
Request for Resources 2: UK Coinage				
Sale of coinage scrap metal	–	328	328	160
Royal Mint Dividend	–	750	750	–
	–	**1,078**	**1,078**	**160**
Total programme income HMT	**6,979**	**40,230**	**47,209**	**75,167**
Total operating income HMT	**12,602**	**40,230**	**52,832**	**81,277**
OGC				
Administration income				
Allowable within admin. cost limit	7,914	3,429	11,343	15,069
Other income	85	60	145	296
Total administration income OGC	**7,999**	**3,489**	**11,488**	**15,365**
Programme income				
Management and disposal of vacant property	1,072	203	1,275	225
Whitehall Systems	3,500	248	3,748	3,090
Other income	1,196	42	1,238	972
Total programme income OGC	**5,768**	**493**	**6,261**	**4,287**
Total operating income OGC	**13,767**	**3,982**	**17,749**	**19,652**
Department total operating income	**26,369**	**44,212**	**70,581**	**100,929**

In addition to the above other non operating income of £15k relating to the disposal of fixed assets is payable to the Consolidated Fund.

8.1 Pool Re

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

8.2 Troika – discontinued operation

Troika ceased to effect new policies after 30 September 2002 and all the company's exposure expired on 31 October 2002. Under Part IV of the Financial Services and Markets Act 2000 Troika was de-authorised as an insurance company on 15 March 2004 (see Note 16.2(a)).

9. ADMINISTRATION COST LIMITS

	2003-04		2002-03	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for Resources 1 (HMT Gross Limit)	104,457	109,577	90,634	93,519
Request for Resources 2 (HMT Gross Limit)	–	–	–	–
Request for Resources 3 (OGC Gross Limit)	35,473	36,811	30,070	33,500
	139,930	**146,388**	**120,704**	**127,019**

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

10. RECONCILIATION OF NET OPERATING COSTS TO NET RESOURCE OUTTURN

	2003-04			2002-03 (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Net Operating Costs	32,394	225,604	257,998	295,313
Less: Non-Supply expenditure in resource budget	–	(11,663)	(11,663)	(1 1,179)
Add: Operating income not appropriated-in-aid	3,982	40,230	44,212	74,500
Add: Transfer of Function in respect of Honours and Dignities (see note 3)	–	1,008	1,008	735
Net Resource Outturn	**36,376**	**255,179**	**291,555**	**359,369**

11. ANALYSIS OF NET OPERATING COST

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

	2003-2004 Outturn	2002-03 (restated) Outturn
	£000	£000
Spending Body		
Her Majesty's Treasury	221,734	255,857
Office of Government Commerce	32,394	38,703
Parliamentary Bodies	3,870	753
	257,998	**295,313**

12. ANALYSIS OF NET RESOURCE OUTTURN AND NET OPERATING COST BY FUNCTION

	2003-04								2002-03 (restated)
	Admin	Other Current	Current Grant	Gross Resource Expend	A-in-A	Net Total Outturn	Estimate	Net Total Outturn compared with Estimate	Net Total Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1: HM Treasury									
Departmental Expenditure Limit									
Core Treasury	100,318	7,421	–	107,739	(8,871)	98,868	98,883	15	86,538
DMO	9,763	2,015	–	11,778	(3,731)	8,047	8,888	841	7,355
Parliamentary bodies	–	–	4,070	4,070	–	4,070	4,070	–	753
Honours and Dignities	–	1,076	–	1,076	–	1,076	1,076	–	1,013
Euro Preparations	–	–	–	–	–	–	–	–	944
Statistics Commission	–	–	1,338	1,338	–	1,338	1,350	12	1,088
Investment in PUK	–	1,007	–	1,007	–	1,007	1,047	40	–
Privatisation Program	–	53	–	53	–	53	53	–	–
Annually Managed Expenditure									
Investment in Bank of England	–	106,613	–	106,613	–	106,613	106,613	–	–
Core Treasury	–	–	–	–	–	–	–	–	186,001
DMO	–	–	–	–	–	–	–	–	1,257
	110,081	**118,185**	**5,408**	**233,674**	**(12,602)**	**221,072**	**221,980**	**908**	**284,949**
Request for Resources 2: UK Coinage									
Cost of capital	–	2,339	–	2,339	–	2,339	3,714	1,375	5,167
Other current expenditure	–	31,768	–	31,768	–	31,768	32,000	232	29,282
	–	**34,107**	**–**	**34,107**	**–**	**34,107**	**35,714**	**1,607**	**34,449**
HMT (Supply)	**110,081**	**152,292**	**5,408**	**267,781**	**(12,602)**	**255,179**	**257,694**	**2,515**	**319,398**
Request for Resources 3: OGC									
Administration	43,472	–	–	43,472	(7,999)	35,473	36,811	1,338	36,623
Programme activity	–	6,671	–	6,671	(5,768)	903	4,136	3,233	3,348
OGC	**43,472**	**6,671**	**–**	**50,143**	**(13,767)**	**36,376**	**40,947**	**4,571**	**39,971**
Resource Outturn	**153,553**	**158,963**	**5,408**	**317,924**	**(26,369)**	**291,555**	**298,641**	**7,086**	**359,369**
Bank of England Services (expenditure outside supply process –note 1 2.3)						11,663			11,179
Income payable to the Consolidated Fund						(44,212)			(74,500)
Transfer of Honours & Dignities						(1,008)			(735)
Net Operating Cost						**257,998**			**295,313**

12.1 Key to Requests for Resources

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

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

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

12.2 Request for Resources

These functions correspond to the disaggregation of Requests for Resources for control purposes and Parliamentary approval. They do not correspond to departmental objectives, which reflect a disaggregation of departmental aims for management activities. (For an analysis of Appropriations-in-Aid see note 8.)

12.3 Expenditure outside supply process

This relates to payments to the Bank for debt management, which are funded from the National Loans Fund, and the costs the Bank incurs in managing the Exchange Equalisation Account, which are withdrawn from the account.

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

	2003-04				2002-03
	Capital Expend.	PFI contract	A-in-A	Net Total	Net Total
	£000	£000	£000	£000	£000
Request for Resources 1	1,371	–	–	1,371	143,989
Request for Resources 2	–	–	–	–	–
Request for Resources 3	2,396	–	–	2,396	2,062
Total	**3,767**	**–**	**–**	**3,767**	**146,051**

14. INTANGIBLE FIXED ASSETS – Software Licences

	OGC	HMT	Total
	£000	£000	£000
Cost/valuation			
At 1 April 2003	1,752	2,681	4,433
Additions	726	565	1,291
Change in threshold (to OCS-note 2)	(110)	–	(110)
Loss on revaluation charged to OCS	(23)	(77)	(100)
At 31 March 2004	**2,345**	**3,169**	**5,514**
Accumulated depreciation			
At 1 April 2003	1,408	1,490	2,898
Charge in year	205	626	831
Change in threshold (to OCS-note 2)	(73)	–	(73)
Loss on revaluation charged to OCS	(14)	(62)	(76)
At 31 March 2004	**1,526**	**2,054**	**3,580**
Net book value 1 April 2003	344	1,191	1,535
Net book value 31 March 2004	**819**	**1,115**	**1,934**

15. TANGIBLE FIXED ASSETS

Summary	OGC	HMT	Total
	£000	£000	£000
Cost/valuation			
At 1 April 2003	47,596	113,471	161,067
Additions	1,670	806	2,476
Disposal	(23)	(115)	(138)
Change in threshold (to OCS)	(3,836)	–	(3,836)
Revaluation –reserve movement	2,747	(2,730)	17
Loss on revaluation charged to OCS	(179)	(869)	(1,048)
At 31 March 2004	**47,975**	**110,563**	**158,538**
Accumulated depreciation			
At 1 April 2003	25,913	5,551	31,464
Charge in year	2,333	2,922	5,255
Released on disposal	(13)	(2)	(15)
Change in threshold (to OCS)	(2,459)	–	(2,459)
Revaluation –reserve movement	1,528	–	1,528
Loss on revaluation charged to OCS	(43)	(215)	(258)
At 31 March 2004	**27,259**	**8,256**	**35,515**
Net book value 1 April 2003	21,683	107,920	129,603
Net book value 31 March 2004	**20,716**	**102,307**	**123,023**

15.1 HMT tangible fixed assets

	Land & Buildings	Leasehold Improvement	Furniture & Equipment	IT Equipment	Antiques	Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2003	103,650	1,142	34	7,038	1,607	113,471
Additions	–	28	31	747	–	806
Disposal	–	–	–	(10)	(105)	(115)
Revaluation –reserve movement	(2,730)	–	–	–	–	(2,730)
Loss on revaluation charged to OCS	(578)	(25)	–	(266)	–	(869)
At 31 March 2004	**100,342**	**1,145**	**65**	**7,509**	**1,502**	**110,563**
Accumulated depreciation						
At 1 April 2003	955	508	26	4,062	–	5,551
Charge in year	1,386	78	11	1,447	–	2,922
Released on disposal	–	–	–	(2)	–	(2)
Revaluation –reserve movement	–	–	–	–	–	–
Loss on revaluation charged to OCS	(30)	(8)	–	(177)	–	(215)
At 31 March 2004	**2,311**	**578**	**37**	**5,330**	**–**	**8,256**
Net book value 1 April 2003	102,695	634	8	2,976	1,607	107,920
Net book value 31 March 2004	**98,031**	**567**	**28**	**2,179**	**1,502**	**102,307**

15.2 HMT tangible fixed assets

Land and building on the site formerly known as Government Offices on Great George Street

The contract

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

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

The east end of the building was in operational use by HM Treasury until vacated in August 2002. A similar agreement was then reached with HM Revenue and Customs (HMRC) for the refurbishment and subsequent provision of serviced office accommodation at the east end. Refurbishment work started in December 2002 and is due to be completed by October 2004. HMRC plan to move in during November 2004. The accounting treatment of the east end has yet to be determined.

Valuation

As at 31 March 2002, the GOGGS land asset (both west and east ends) was recognised on the HMT balance sheet at £29.37 million based on a valuation by CB Hillier Parker on 17 January 2000 plus subsequent indexation adjustments.

The land at the east end continues to be recognised on the Treasury's balance sheet whilst refurbishment takes place and pending the agreement of the accounting treatment to be adopted for the east end. Its net book value (£15.1 million at 31 March 2004) continues to be based on the CB Hillier Parker valuation, adjusted by indexation.

1HGR was valued as at 31 July 2002 by DTZ Tie Leung at value of £89.5 million, of which £71.6 million was considered attributable to the building and £17.9 million to the land. The land and building will be professionally re-valued at five yearly intervals (with interim annual indexations) and the building is being depreciated over its estimated useful economic life (currently assessed as 50 years).

The revaluation has been calculated in line with the indices provided by HM Treasury in PES (2004) 03 (Revised) SR2004 Forecast Indices for Assets. The index indicated a 3.2% fall in value for 2003-04, resulting in a reduction in the net book value of 1HGR. No revaluation reserve has been accumulated for 1HGR accordingly this downward revaluation has been charged to the Operating Cost Statement.

15.2 HMT tangible fixed assets

Creditor

The refurbished 1 Horse Guards Road building was capitalised as an addition to tangible fixed assets in July 2002, at the cost of refurbishment incurred by EP of £141 million. A creditor was recognised at fair value of £141 million, which is being paid off over the period of the contract, on an annuity basis. The creditor as at 31 March 2004 was calculated as follows:

	£000	
Creditor at 1 April 2003	142,616	
Uplift for inflation on future unitary payments	4,413	(charged to OCS)
Principal repaid during 2003-04	(1,189)	
Creditor at 31 March 2004	**145,840**	

	£000
Creditor payable within 12 months	1,183
Creditor payable in more than 12 months	144,657
	145,840

Unitary Payment

As explained above, the actual costs incurred by the Treasury are wrapped up in an annual unitary payment to EP of £14.037 million at 1999 prices, increased by RPI. The unitary payment made during 2003-04 totalled £15.431 million, made up as follows:

	£000
Interest charges	10,435
Services	3,807
Charged to operating costs statement	14,242
Repayment of principal on creditor	1,189
Total unitary payment	**15,431**

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

Net book value of land & buildings

	Land		Building	Total
	1 Horse Guards Rd	East End	1 Horse Guards Rd	
	£000	£000	£000	£000
Net book value 1 April 2003	16,450	15,600	70,645	102,695
Net book value 31 March 2004	15,925	15,102	67,004	98,031

15.3 OGC tangible fixed assets

	Land and Buildings	Plant & Machinery	Furniture & Equipment	IT Equipment	Whitehall Systems	Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2003	7,207	240	1,597	3,822	34,730	47,596
Additions	1,497	–	38	135	–	1,670
Disposal	–	(23)	–	–	–	(23)
Change in threshold (to OCS)	(153)	(7)	(1,018)	(2,658)	–	(3,836)
Revaluation –reserve movement	2 6	–	–	–	2,721	2,747
Loss on revaluation charged to OCS	(140)	2	(10)	(31)	–	(179)
At 31 March 2004	**8,437**	**212**	**607**	**1,268**	**37,451**	**47,975**
Accumulated depreciation						
At 1 April 2003	661	96	481	2,753	21,922	25,913
Charge in year	621	32	60	201	1,419	2,333
Released on disposal	–	(13)	–	–	–	(13)
Change in threshold (to OCS)	(107)	(2)	(427)	(1,923)	–	(2,459)
Revaluation –reserve movement	2	–	–	–	1,526	1,528
Loss on revaluation charged to OCS	(22)	3	(4)	(20)	–	(43)
At 31 March 2004	**1,155**	**116**	**110**	**1,011**	**24,867**	**27,259**
Net book value 1 April 2003	6,546	144	1,116	1,069	12,808	21,683
Net book value 31 March 2004	**7,282**	**96**	**497**	**257**	**12,584**	**20,716**

Thistle Street, Edinburgh was valued in January 2003 on the basis of existing use value by independent surveyors, Gerald Eve, a member of RICS, in accordance with the RICS Appraisal and Valuation Manual. For 2003-04 the property has been revalued using the indices contained in PES(2004) 03 (Revised).

The Whitehall District Heating System and the Whitehall Standby Distribution System supply heating and emergency electricity to government departments in the Whitehall area were independently professionally valued as at 31 December 2003 by Chartered Mechanical & Electrical Engineers & Chartered Quantity Surveyors from Cambridge Projects Ltd, on the basis of current replacement cost. Negotiations are at an advanced stage to transfer these assets to OGCbuying.solutions –see note 35.

16. INVESTMENTS

16.1 Fixed Investments

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

	At 1 April 2003	Additions	Disposals	Revaluation	At 31 March 2004
	£000	£000	£000	£000	£000
OGC					
OGCbuying.solutions	350	–	–	–	350
HMT					
Bank of England	1,506,000	–	–	54,000	1,560,000
Royal Mint	5,500	–	–	–	5,500
Partnerships UK Shares	4,045	–	–	(119)	3,926
Partnerships UK Loan Stock	15,594	–	–	–	15,594
HMT Total	1,531,139	–	–	53,881	1,585,020
Department total	**1,531,489**	**–**	**–**	**53,881**	**1,585,370**

16.1(a) Bank of England

The Bank of England was set up as a body corporate under the Bank of England Act 1946 as the central bank of the United Kingdom. It is committed to promoting the public good by maintaining a stable and efficient monetary system and financial framework as its contribution to a healthy economy. Its three core purposes are maintaining the integrity and value of the currency; maintaining the stability of the financial system, both domestic and international; and seeking to ensure the effectiveness of the UK's financial services. The Treasury wholly owns the capital stock in the Bank of England. The Bank is required to pay the Treasury in lieu of dividend a sum agreed between the Bank and the Treasury in respect of each financial year, normally 50% of its net operating surplus.

HM Treasury's investment in the Bank of England is valued at the Bank's audited net assets as at 29 February 2004. Extracts from the accounts of the Banking Department of the Bank of England for the year ended 29 February 2004 are shown in the table below; for further information, refer to the full Bank of England Report and Accounts.

Extracts from the Banking Department's accounts
For the year ended 29 February

	2004	**2003**
	£ million	**£ million**
Extracts from the profit and loss account		
Profit before taxation	72	89
Payable to HM Treasury (see note 8)	(30)	(34)
Taxation	(12)	(21)
Retained profit for the year	**30**	**34**
Extracts from the balance sheet		
Assets		
Loans and advances to banks, the money market and customers	5,891	6,747
Debt securities	8,343	8,713
Other assets	1,279	1,364
Total assets	**15,513**	**16,824**
Liabilities		
Deposits by central banks, other banks and building societies	6,743	7,682
Debt securities in issue	5,739	5,859
Other liabilities	1,471	1,777
Total liabilities	**13,953**	**15,318**
Net assets and shareholders funds	**1,560**	**1,506**

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 29 February 2004 totalled £36.02 billion (2003: £33.87 billion). The notes are a liability of the Bank, which must be backed by an equivalent value of securities. Total securities held by the Issue Department at 29 February 2004 were £36.02 billion (2003: £33.87 billion), which included the Ways and Means Advance to the National Loans Fund of £13.37 billion (2003: £13.37 billion) and financial instruments issued by other banks.

The profit of the Issue Department for the year ended 29 February 2004 was £1.23 billion (2003: £1.24 billion). Each year's profit is paid over to the National Loans Fund. The profit represents the interest on the securities held by the Issue Department less the costs of production of bank notes and other expenses. The Issue Department's liabilities (bank notes in circulation) are interest free.

16.1(b) Royal Mint

The Royal Mint was set up in 1975 as a Trading Fund under the Government Trading Fund Act 1973 and became an Agency in 1990. It manufactures and supplies coins, medals, seals and similar articles. The Treasury wholly owns the Public Dividend Capital of the Royal Mint. In accordance with the Resource Accounting Manual, HM Treasury's investment is shown at its nominal value. A dividend of £750k (2003: nil) is payable.

Extracts from the Royal Mint's accounts
For the year ended 31 March

	2004	**2003**
	£000	£000
Extracts from the profit and loss account		
Turnover	89,890	92,021
Operating profit/(loss) before exceptional costs	2,117	1,285
Exceptional costs	–	900
Net interest payable	(823)	(828)
Profit for the year	**1,294**	**1,357**
Extracts from the balance sheet		
Fixed assets	39,733	40,675
Current assets	77,421	60,956
Liabilities due within one year	(54,070)	(38,353)
Liabilities due after more than one year	(13,036)	(15,097)
Net assets and shareholders funds	**50,048**	**48,181**

For further information, refer to the full Royal Mint Report and Accounts.

16.1(c) Partnerships UK

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

As at 31 March 2004, the equity interest has been revalued to the net asset value per share of £0.88 compared to the value of £0.91 per share as at 31 March 2003. The Treasury's holding of PUK Loan Stock is shown at nominal value. No dividend was declared on the shares, but interest (6%) was received on the loan stock.

16.2 Current Investments

	Residual Shares	Bonus Shares	Pool Shares Other Depts	Troika Insurance Company Limited	Total
	£000	£000	£000	£000	£000
At 1 April 2003	657	41	319	5,000	6,017
Disposals	–	(4)	(10)	(5,000)	(5,014)
Revaluation	524	4	40	–	568
Impairment	(37)	–	(8)	–	(45)
At 31 March 2004	**1,144**	**41**	**341**	**–**	**1,526**

16.2 Current Investments (continued)

The Department holds residual shares from past privatisations as current assets. The shares are valued at market value as at 31 March 2004.

Registrars of previous share issues hold shares for issue in cases where bonus shares were due but not issued. The registrars also hold cash in respect of the dividends, which these shares have earned since their issue. Past dividends are issued as bonus shares are claimed. The shares are valued at market value as at 31 March 2004.

Pool shares previously held by other Departments have been transferred to the Treasury for disposal. They are valued at market value as at 31 March 2004.

16.2(a) Troika Insurance Company Limited

As a result of the terrorist attacks in the United States on 11 September 2001, commercial insurers and re-insurers withdrew cover from the aviation industry for third party liabilities arising from war and terrorism. To enable the UK aviation industry to continue to operate, the Treasury established Troika Insurance Company Limited ("Troika") on 24 September 2001 to provide third party war a nd terrorism cover to the UK aviation industry until such time as commercial cover became reasonably available again. Other governments took similar action.

The Treasury provided reinsurance for 100% of Troika's insured risks. This gave rise to a material but unquantifiable contingent liability of the Treasury as from 24 September 2001, as referred to in note 27. Following a decision by the European Union that such cover is now reasonably available commercially, this scheme ceased with effect from 1 November 2002.

Troika was an insurance company registered in England and Wales (company number 4267538) and regulated by the Financial Services Authority. HMT had contributed (by way of a loan note) the whole of Troika's regulatory capital initially set at £3 million on 24 September 2001, and extended to £5 million on 21 December 2001. HMT controlled Troika through provisions in the Articles of Association.

Troika was de-authorised by the FSA on 15 March 2004, and its loan note expired on 19 March 2004. There are no outstanding nominal or contingent liabilities. The company is now in the process of being wound up by liquidators.

17. MOVEMENTS IN WORKING CAPITAL OTHER THAN CASH

	2003-04			2002-03 (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Increase/(decrease) in stock	(5)	92	87	4
Increase/(decrease) in debtors	(2,573)	(18,698)	(21,271)	(20,342)
Intra departmental consolidation adjustment	(573)	573	–	–
(Increase)/decrease in creditors	95,863	68,670	164,533	2,451
Transfer to Cabinet Office in respect of Honours and Dignities	–	–	–	1, 511
	92,712	**50,637**	**143,349**	**(16,376)**
Adjustment: movement in working capital not related to net operating costs				
Amounts due to the Consolidated Fund	(81,397)	(67,161)	(148,558)	
Transfer of creditors to provisions	(1,593)	–	(1,593)	
The movement in working capital other than cash used in the Cash Flow Statement	**9,722**	**(16,524)**	**(6,802)**	
Amounts due from the Consolidated Fund	–	4,344	4,344	
Increase in PFI creditor	–	1,189	1,189	
Amount receivable –that will be due to the Consolidated Fund	(3,242)	15,056	11,814	
The movements in working capital used in the Reconciliation of resource to cash requirement	**6,480**	**4,065**	**10,545**	

18. SURPLUS FREEHOLD PROPERTY

	£000
At 1 April 2003	3,400
Revaluation	1,096
At 31 March 2004	**4,496**

The portfolio comprises two properties, one of which has been revalued by reviewing relevant indices. The second, at Honeypot Lane, Stanmore was carried out by Knight Frank LLP, whose instructions were to review relevant indices that provide information on market movements to land values since January 2003, and undertake a desktop assessment of the site's planning potential. Negotiations are progressing towards final disposal of both properties during 2004-05.

19. STOCKS

		2003-04		**2002-03** (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Coinage scrap metal (Non-cash)	–	193	193	101
Fuel Oil	98	–	98	103
Total	**98**	**193**	**291**	**204**

20. DEBTORS

		2003-04		**2002-03**
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Amounts falling due within 1 year				
Other taxation and social security	421	1,773	2,194	1,967
Trade debtors	1,766	2,253	4,019	6,399
Deposits and advances	350	329	679	543
Other debtors	60	1,803	1,863	5,620
Prepayments and accrued income	4,546	33,099	37,645	47,285
Overpayment recoverable from Consolidated Fund	–	–	–	4,344
Prefunding for premature retirements	132	86	218	366
	7,275	**39,343**	**46,618**	**66,524**
Amounts falling due after more than 1 year				
Other debtors	209	6,547	6,856	8,037
Prefunding for premature retirements	104	64	168	386
	313	**6,611**	**6,924**	**8,423**
Total	**7,588**	**45,954**	**53,542**	**74,947**

Included within debtors is £42,280k (2003: £54,094k) that will be due to the Consolidated Fund once the debts are collected.

21. CASH AT BANK AND IN HAND

	OGC	2003-04 HMT	Total	2002-03 Total
	£000	£000	£000	£000
Balance at 1 April	90,644	11,838	102,482	74,432
Funds held re prior year Supply not previously recognised	–	–	–	1,28 9
Net cash inflow/(outflow)	(84,638)	372	(84,266)	26,761
Balance at 31 March	**6,006**	**12,210**	**18,216**	**102,482**

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

	OGC	2003-04 HMT	Total	2002-03 Total
	£000	£000	£000	£000
Office of HM Paymaster General	6,006	11,597	17,603	72,556
Held in Paymaster by HMT for OGC	–	–	–	1,289
Bank of England	–	612	612	608
Held by Solicitors for OGC	–	–	–	28,027
Cash in hand	–	1	1	2
Balance at 31 March	**6,006**	**12,210**	**18,216**	**102,482**

	OGC	2003-04 HMT	Total	2002-03 Total
	£000	£000	£000	£000
Amounts issued from the Consolidated Fund for Supply but not spent at year end	5,250	3,457	8,707	9,161
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	756	8,547	9,303	74,112
Other amounts due to be paid to the Consolidated Fund	–	206	206	19,209
Balance at 31 March	**6,006**	**12,210**	**18,216**	**102,482**

22. CREDITORS

Amounts falling due within one year

	OGC	2003-04 HMT	Total	2002-03 (restated) Total
	£000	£000	£000	£000
Other taxation and social security	545	–	545	–
PFI contract-principal repayable	–	1,183	1,183	1,088
Trade creditors	–	4,331	4,331	7,718
Other creditors	2	3,626	3,628	21,386
Accruals and deferred income	5,009	7,394	12,403	12,758
Amounts due to the Consolidated Fund	9,248	51,248	60,496	160,773
Total	**14,804**	**67,782**	**82,586**	**203,723**

The total due to the Consolidated Fund comprises

	2003-04 OGC	2003-04 HMT	2003-04 Total	2002-03 (restated) Total
	£000	£000	£000	£000
Amounts issued from the Consolidated Fund for Supply but not spent at year end	5,250	3,457	8,707	9,161
Consolidated Fund extra receipts received	756	8,547	9,303	74,112
Consolidated Fund extra receipts receivable	3,242	39,038	42,280	58,061
Other amounts due to be paid to the Consolidated Fund	–	206	206	19,439
Total	**9,248**	**51,248**	**60,496**	**160,773**

The amount due for Consolidated Fund extra receipts and receivables includes £6,532k in relation to amounts not expected to be received for more than one year.

Amounts falling due after more than one year

	2003-04 OGC	2003-04 HMT	2003-04 Total	2002-03 Total
	£000	£000	£000	£000
PFI contract (note 15.2)	–	144,657	144,657	141,528
Bond from sub-tenants	–	268	268	268
Total	**–**	**144,925**	**144,925**	**141,796**

23. PROVISIONS FOR LIABILITIES AND CHARGES

	Surplus leasehold property	Specific dilapidations and legal costs	Early departure & pension commitments	Total
	£000	£000	£000	£000
OGC				
Balance at 1 April 2003	21,143	931	6,025	28,099
Provision utilised in year	(2,771)	(324)	(3,925)	(7,020)
Transfer from creditors	1,593	–	–	1,593
Transfer from/(to) operating cost statement	(3,678)	(182)	626	(3,234)
Unwinding of discount	760	–	83	843
Increase in provision due to change in discount rate	3,442	–	150	3,592
At 31 March 2004	**20,489**	**425**	**2,959**	**23,873**
HMT				
Balance at 1 April 2003			2,523	2,523
Provision utilised in year			(1,596)	(1,596)
Transfer from operating cost statement			3,292	3,292
Unwinding of discount			92	92
Increase in provision due to change in discount rate			61	61
At 31 March 2004			**4,372**	**4,372**
Department total at 31 March 2004	**20,489**	**425**	**7,331**	**28,245**

Maturity analysis of provisions: amounts estimated to fall due

	OGC	HMT	Total
	£000	£000	£000
Within one year	3,406	2,137	5,543
Between one and two years	2,383	683	3,066
Between two and five years	7,645	1,268	8,913
After five years	10,439	284	10,723
	23,873	**4,372**	**28,245**

Surplus leasehold property

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

Specific dilapidations and legal costs

Dilapidations may arise on properties where the lease has expired and which, as they can be disputed, may not be settled until some time after the expiry date. Specific provision is made for the amount that the OGC expects to pay to settle the obligation plus legal and other associated costs. The provision also includes amounts to cover expected legal and associated costs, including disputes over the disposal of vacant estate property.

Early departure & pension commitments

See statement of accounting policies –note 1.14.

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

	2003-04			2002-03 (restated)
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(32,394)	(225,604)	(257,998)	(295,313)
Income not appropriated in aid payable to the Consolidated Fund	(3,997)	(40,230)	(44,227)	(161,914)
	(36,391)	(265,834)	(302,225)	(457,227)
Parliamentary Funding drawn down	44,003	143,018	187,021	183,193
Parliamentary Funding brought forward	7,076	2,085	9,161	251
Transitional adjustment re: implementation of resource-based supply	–	97	97	(8,600)
Other amounts due to the Consolidated Fund	–	(206)	(206)	–
Transfer to General Fund of realised element of revaluation reserve (note 25)	–	110	110	60,361
Consolidated Fund creditor for cash unspent	(5,250)	(3,457)	(8,707)	(8,910)
Prior year cash not recognised	–	–	–	1,289
Non-cash items				
Notional audit fee	40	91	131	153
Cost of capital	1,102	108,323	109,425	114,330
Bank of England services	–	11,663	11,663	11,179
Intra departmental consolidation adjustments –Supply balances	(48,5 58)	48,558	–	–
Intra departmental consolidation adjustments –other	(57)	57	–	–
Transfer to Cabinet Office in respect of Honours and Dignities	–	(1,0 08)	(1,008)	(3,757)
Net increase/(decrease) in General Fund	**(38,035)**	**43,497**	**5,462**	**(107,738)**
General Fund at 1 April	33,775	1,213,424	1,247,199	1,354,937
General Fund at 31 March (Schedule 3)	**(4,260)**	**1,256,921**	**1,252,661**	**1,247,199**

25. REVALUATION RESERVE

	OGC	HMT investments	HMT tangible assets	Total
	£000	£000	£000	£000
Balance at 1 April 2003	**3,333**	**217,045**	**5,958**	**226,336**
Arising on revaluation during the year (net)				
Tangible assets and investments	1,227	54,162	(2,730)	52,659
Surplus property	1,096	–	–	1,096
Transfer (to)/from General Fund in respect of realised element of revaluation reserve				
Tangible assets and investments	–	(4)	(106)	(110)
Balance at 31 March 2004	**5,656**	**271,203**	**3,122**	**279,981**

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

26. NOTES TO SCHEDULE 5

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

	Programme grants and other current gross expenditure		Capital employed	
Objectives:	**2003-04**	**2002-03** (restated)	**2003-04**	**2002-03** (restated)
	£000	£000	£000	£000
(1) Maintaining a stable macroeconomic framework with low inflation;	91,965	85,412	788,717	766,258
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;	12,991	12,520	(413)	(9,923)
(3) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable;	117	2,092	(7,808)	(7,485)
(4) Increasing the productivity of the economy;	–	799	(5,992)	(5,613)
(5) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	54,530	59,426	797,675	772,375
(6) Expanding economic and employment opportunities for all;	–	67	(1,5 06)	(468)
(7) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	390	529	(5,035)	(3,742)
(8) Improving the quality and cost effectiveness of public services;	8,301	9,915	6,721	14,801
(9) Achieving a high standard of regularity, propriety and accountability in public finance;	–	983	(7,727)	(7,017)
(10) Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;	–	–	(685)	–
(11) Other resources required not falling under HM Treasury's ten main objectives.	6,733	1,113	(31,305)	(45,651)
Operating costs/net assets	**175,027**	**172,856**	**1,532,642**	**1,473,535**

Programme grants and other gross expenditure

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

Capital employed

Where assets or liabilities relate to specific objectives they are attributed directly. For example, the £1.56 billion investment in the Bank of England and the £30 million dividend receivable from the Bank are attributed to objectives 1 and 5, and the £19.5 million investment in Partnerships UK is attributed to objective 8. The Department's administrative net liabilities are attributed to objectives in proportion to the expenditure on those objectives recorded on Schedule 5.

27. CONTINGENT ASSETS & LIABILITIES

27.1 Contingent assets & liabilities disclosed under FRS 12

	2004	2003
	£000	£000
Contingent assets		
OGC is pursuing claims against other parties to recover monies in connection with the disposal of vacant properties. The probable net amount recoverable is estimated in the range shown. The claims currently outstanding are expected to be settled over a three-year period from the balance sheet date. Claims against OGC for dilapidations on expired leases and associated costs are considered to be adequately covered in the specific dilapidations and legal costs provision (see Note 23 above).	2,650	2,000 to 8,400
The Barlow Clowes group of companies collapsed in 1988, and the Treasury subsequently paid compensation to investors. The receivers and liquidators of the Barlow Clowes companies (the Officeholders) brought proceedings in the Isle of Man against the two Directors of the International Trust Corporation (IoM) Ltd (and the company itself). Judgement was given against the defendants on 11 February 2002 for an amount subsequently calculated to be £8,435,953.41. The defendants appealed to the Staff of Government Division in the IoM Court. The judgement on appeal was that one of the Directors, and the company, remain liable for £9,924,275.68 plus £926.96 daily interest from the date of judgement (11 February 2002), the liability having been recalculated. It is now out of time for an appeal by this Director and the company so this judgement now stands.		
However, the appeal of one of the Directors was successful. Leave to Appeal to the House of Lords against this decision was sought by the Officeholders and subsequently granted and the hearing is expected to be held in Autumn 2004 or early 2005. If the Officeholders' appeal is successful, it is likely the Director will still be jointly and severally liable for £9.924 million. Until the outcome of the Appeal to the House of Lords is known, no steps have been taken to recognise these sums in the financial statements, as there is no certainty of recovery.	9,924	8,436
A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of HMS Sussex, which sank in the Western Mediterranean in 1694 carrying gold and sliver coins estimated to be valued at the time at £1million. If confirmed as HMS Sussex the wreck and its contents are legally the property of Her Majesty's Government.		
A licensing agreement was signed on 27 September 2002 between the Disposal Services Agency of the Ministry of Defence, on behalf of HM Government, and Odyssey for further archaeological exploration of the wreck of HMS Sussex and recovery of artefacts etc. Under the agreement the net proceeds of the sale of coins and other marketable artefacts will be shared between the two parties. Insufficient certainty exists at present as to the presence or value of any potential recovery of artefacts to quantify the contingent asset.	Not known	Not known
Contingent Liabilities		
Arrangements to provide reinsurance facilities for certain terrorist attacks against industrial and commercial property in Great Britain. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.	Unquantifiable	Unquantifiable
Arrangements for the insurance of third party war and terrorism cover to the UK aviation industry via Troika. Troika ceased to provide live policies from 1 November 2002 but liability continued for 12 months following this date to allow any new claims to come forward. Troika was de-authorised by the FSA on 15 March 2004, and its loan note ran out on 19 March 2004. There are no outstanding liabilities.	Nil	Unquantifiable
Guarantee on the privatisation of HM Paymaster General against liabilities incurred by the purchaser in connection with the ownership or operation of the business before its transfer. This is the maximum possible liability, based on a recent assessment of the expected level of payments.	91	4,800

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

	2004	2003
	£000	£000
Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the IBRC passed to the Treasury. The Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity.	Unquantifiable	Unquantifiable

28. CAPITAL COMMITMENTS

There are no capital commitments for HMT.

OGC have contracted capital commitments of £392k and approved but not contracted capital commitments of £1,547k at 31 March 2004 (2003: nil) for which no provision has been made.

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

Commitments

At 31 March 2004 the Department was committed to making the following payments during the next year in respect of operating leases and the service element of the on-balance sheet PFI contract:

	2003-04			2002-03
	Land & buildings	Other	Total	Total
Lease expires:	£000	£000	£000	£000
Within one year	–	11	11	42
Between two and five years	1,116	349	1,465	330
After five years	7,450	1	7,451	8,449
	8,566	361	8,927	8,821

Receivables

	2003-04			2002-03
	Land & buildings	Other	Total	Total
Lease expires:	£000	£000	£000	£000
Within one year	–	–	–	–
Between two and five years	275	–	275	254
After five years	–	–	–	–
	275	–	275	254

30. OTHER COMMITMENTS

The Treasury has committed to pay the Royal Mint for the costs of manufacturing circulation coinage. Monthly payments are made for coins issued, on the basis of a price agreed in a Service Level Agreement, which is subject to an annual efficiency adjustment equivalent to the annual change in RPI minus 2%. The price was agreed on the basis of a standard mix of denominations, and so is converted into a price per factored unit, to reduce the risk to the Mint and the Treasury of demand for each denomination changing. The costs charged to the Treasury are based on the price per factored units. For the year 2003-04 the Treasury purchased 1,814 million coins, translating to charges for 2,201 million factored units at a cost of £16,613,393.

Number of coins	Price per million coins (£)	Factored Units (millions)	Price per factor (£)	Commitment based on the purchase of 2,201m factored units (£000)
0 to 1,400,000,000	10,366	0 to 1,817	7,989	14,516
1,400,000,001 to 1,800,000	7,065	1,818 to 2,336	5,445	2,097
Over 1,800,000,000	6,055	Over 2,336	4,667	–
Excluding VAT				

In addition the Royal Mint charges the Treasury for metal and freight costs, which totalled approximately £9.5 million in 2003-04.

31. RELATED PARTY TRANSACTIONS

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

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

Although the Bank of England (see Note 16.1(a)) and Royal Mint (see Note 16.1(b)) fall outside the resource accounting boundary, their share capital is wholly owned by the Treasury. Payments to these bodies for services provided and the dividend payments received are material and in the operating cost statement.

James Sassoon is a Managing Director of core Treasury. The Treasury has a 44.56% shareholding in Partnerships UK plc, (see Note 16.1(c)), a public private partnership with a majority private sector shareholding. James Sassoon is a director of PUK, for which he receives no remuneration. PUK receives payment on a commercial basis for work done for the Treasury and other Government departments. It does not receive any grant in aid from HM Treasury.

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

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

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

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

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

32. ACOUNTABILITY DISCLOSURES

32.1 Claims waived or abandoned

HMT administration costs include £269k arising from 31 claims waived or abandoned. Of these no single claim exceeded £100,000.

OGC administration costs include £419k arising from 14 claims abandoned or waived. Of these the following claim was over £100,000:

Income from the export of electricity in 2001-02 from the Whitehall District Heating Systems to TXU Ltd (previously Eastern Electricity) –£250k.

33. FINANCIAL INSTRUMENTS

Risk management objectives and policies

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

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

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

Liquidity risk

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

Interest rate risk

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

Currency risk

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

Credit risk

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

Financial liabilities

All of HM Treasury's financial liabilities are interest free, and mature within one year or less, or on demand, except for the PFI creditor described in notes 15.2 and 22, and certain provisions described in note 23. The fixed interest rate implicit in the PFI creditor is 7%; it is paid off in instalments over the period to 2037. The Early Retirement Provision and the Surplus Leasehold Property Provision have been discounted for the time value of money and therefore are treated as carrying interest at a fixed rate of 3.5% (2002-03: 6%). The Specific Dilapidations and Legal Costs provisions have not been discounted and therefore are treated as interest free. All material financial liabilities are carried at their fair value, and are denominated in sterling.

Financial assets

The department's financial assets comprise its investments as set out in note 16, long term debtors as set out in note 20 and cash at bank and in hand as set out in note 21. All financial assets are non-interest bearing, except for the Partnerships UK Loan Stock, which pays a nominal rate of interest of 6%. Cash at bank and in hand is available on demand. The fixed asset investments are held for an unlimited term. The policy on current investments is that they should be disposed and therefore it has been assumed that they will be held for less than 12 months. Long term debtors are expected to be realised in three to four years. All material financial assets are denominated in sterling.

Fair value of financial assets

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

	Carrying value 31 March 2004	Estimated fair value 31 March 2004
	£000	£000
Public Dividend Capital in Royal Mint (note 16.1b)	5,500	50,048
Public Dividend Capital in OGCbuying.solutions	350	16,567
Partnerships UK Loan Stock (note 16.1c)	15,594	13,489 to 20,506

Public Dividend Capital in the Royal Mint and OGCbuying.solutions is carried at historical cost in accordance with the RAM. The net asset value from the latest accounts is treated as fair value. The investment in Partnerships UK Loan Stock is carried at historical cost in the absence of a reliable market value. The estimated range of fair values for the purpose of this disclosure has been derived from the nominal value of £15.594 million and the coupon interest rate of 6% at a range of yields from 4.25% to 6.75%. A yield of 4.25% implies a fair value of £20.506 million, while a yield of 6.75% implies a fair value of £13.489 million.

34. ACTUAL OUTTURN – RESOURCES AND CASH

34.1 Actual outturn – resources:

Request for Resources 1: Actual amount net resources outturn £221,071,227.48. Actual amount of savings in resources over Estimate £908,772.52.

Request for Resources 2: Actual amount net resources outturn £34,107,144.12. Actual amount of savings in resources over Estimate £1,606,855.88.

Request for Resources 3: Actual amount net resources outturn £36,375,891.68. Actual amount of savings in resources over Estimate £4,571,108.32.

34.2 Actual outturn – cash:

Net cash requirement: Outturn net requirement £187,475,563.43 which is £10,479,436.57 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund were £56,041,329.16. Other amounts due to the Consolidated Fund were £206,051.54.

35. POST BALANCE SHEET EVENTS

WHITEHALL SYSTEMS – TRANSFER TO OGCbuying.solutions

At the balance sheet date, negotiations were at an advanced stage to effect the transfer of ownership of the Whitehall District Heating System and Whitehall Standby Distribution System (the Whitehall Systems) to OGCbuying.solutions (OGCb.s), the OGC sponsored trading fund. When OGC was created it assumed responsibility for running the Whitehall Systems, but it is not core business. OGCb.s' extensive experience in providing the public sector with goods and services make this a better fit to the business model. Such a transfer of ownership of an asset requires a negative resolution of the House of Commons, under the relevant Trading Fund legislation. Additionally, OGCb.s are required to purchase the asset, which will be achieved through the utilisation of some cash reserves and a voted loan from the sponsor department, OGC.

At the time of transfer of the Whitehall Systems the net book value is expected to be £12.2 million of which £3 million will be paid in cash, at the transfer date, and the balance will comprise the voted loan. OGC will forego income in the region of £4.3 million, with a matching cost reduction.

Printed in the UK by the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
171918 08/04

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