


ANNUAL REPORT 2007–08


July 2008



HM TREASURY

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HM Treasury Annual Report 2007-2008

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

July 2008

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This document is part of a series of Departmental Reports which, along with the Main Estimates 2008-09, the document Public Expenditure Statistical Analyses 2008 and the Supplementary Budgetary Information 2008-09, present the Government's expenditure plans for 2008-09, and comparative outturn data for prior years.

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

The Treasury has had to face many challenges during the last year, most notably a continuing and significant period of global economic uncertainty. This has made it more challenging and has emphasised the need for the Government to maintain its main objective of building a strong economy and a fair society with opportunity and security for all.

The global outlook remains uncertain but I am optimistic about the underlying strength and resilience of the British economy - and confident that we will get through this period of economic difficulty. Government policy has helped promote stability and enhanced the flexibility of the UK economy leaving it well placed to deal with economic shocks.

The twin global shocks of the credit crisis and the rise of commodity prices are delivering the toughest economic challenges for decades, affecting countries right across the world, including our own. They mean that the world economy is now slowing down while inflation is rising. Tighter conditions in financial markets have reduced the amount of lending and put upward pressure on mortgage rates. World food prices have risen hugely over the last year and the price of oil has doubled.

For the last decade the foundation of our success as a country has been a strong and stable economy. It is essential that we continue to do everything in our power to maintain stability, support families, business and the wider economy. And it is imperative that we are not diverted from our long term aim - to equip this country for the competitive challenges of the future.

The Treasury is at the heart of government decision making and should, along with other departments, set the strategic direction of the government. It has to be at the heart of making changes both in society and in the economy, and while its core purpose must be to ensure the stability of the economy, it must promote growth and effectively manage our public finances.

It would not have been possible to deliver the achievements set out in this report without the hard work of dedicated staff in the Treasury group. I would like to thank our officials for their continued commitment and hard work.

The Rt Hon Alistair Darling MP

Introduction

About this document

Introducing the ministerial team

The HM Treasury Group Structure

INTRODUCTION

This introduction enables the reader to navigate this document. It also introduces the Ministerial team and the Treasury Group's structure.

The Treasury Group consists of HM Treasury, UK Debt Management Office (DMO) and the Office of Government Commerce (OGC). This Annual Report describes the Treasury Group's performance and achievements against its Public Service Agreements and key departmental objectives, and covers the period 1 April 2007 to 30 June 2008.

The Treasury Group will also publish its Resource Accounts which will provide a comprehensive account of the Treasury Group's use of resources. This report will cover the period 1 April 2007 to 31 March 2008.

About this document

Chapter 1: Executive summary sets out a strategic overview of the objectives and targets of the Treasury Group and provides a summary assessment of progress made against them over the course of 2007-08. This is in the form of a commentary on progress against the strategic objectives of the Treasury Group, and an assessment of performance against Public Service Agreements (PSAs).

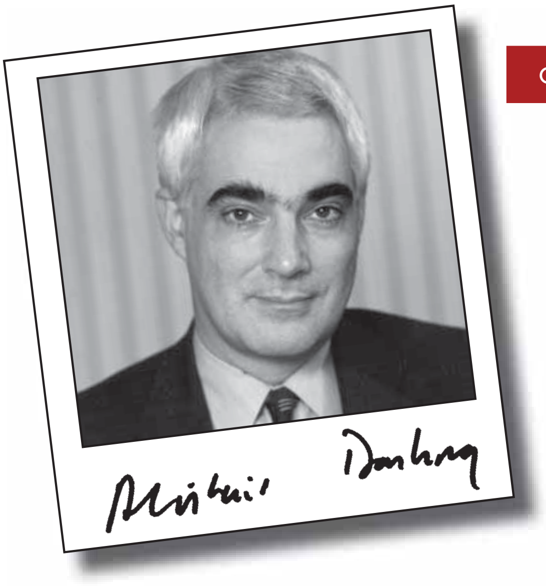
Chapters 2 – 5 set out the progress of the Treasury Group during 2007-08 in four key areas and, within each area, outlines performance against the relevant PSA targets from Spending Review 2004 (SR2004) as well as those from Spending Review 2002 (SR2002) that remain live. These chapters also briefly outline plans for the future including the ongoing management of potential risk to delivery.

> **Chapter 2: Maintaining stability at home and overseas** describes the Treasury's approach to managing inflation and sound public finances, along with the Treasury's performance in increasing global prosperity and social justice. It details the contribution of the Debt Management Office (DMO). The Treasury's responsibilities with regard to the promotion of stable financial markets is outlined, including information about ongoing work in relation to Northern Rock.
>
> **Chapter 3: Raising trend growth** explains how the Treasury Group is working to increase the productivity of the economy and expand economic and opportunities for all.
>
> **Chapter 4: Promoting fairness and opportunities for all** details the work of the Treasury to get more people into employment and to reduce levels of child poverty; along with its role to promote the protection of the environment and address issues relating to climate change.
>
> **Chapter 5: Delivering high quality public services** shows how the Treasury is working with all government departments to improve public services and increase efficiency. Key to this is the work of the OGC, responsible for delivering savings through improved procurement practice.

Chapter 6: Maintaining an efficient and effective economics and finance ministry describes the Treasury Group's corporate performance and covers the corporate governance arrangements for the Group; the relationship with arms-length bodies; and performance on key corporate services, including the Group Shared Services programme, workforce and diversity, a sustainable working environment, knowledge management, and managing communications with the public and Parliament.

Annex A: Treasury Group financial data and projections provides an overview of how the Treasury Group has managed its resources during 2007-08 and also provides commentary on comparative financial data and projections. It also details the plans and progress made towards the efficiency targets for the Treasury Group.

MINISTERIAL RESPONSIBILITIES



CHANCELLOR OF THE EXCHEQUER: RT HON ALISTAIR DARLING, MP

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

He is supported by:

- the Chief Secretary to the Treasury, Yvette Cooper;
- the Financial Secretary to the Treasury, Jane Kennedy;
- the Exchequer Secretary, Angela Eagle;
- the Economic Secretary to the Treasury, Kitty Ussher; and
- the Minister of State with Responsibility for Revenue Protection at the Border, Liam Byrne.

CHIEF SECRETARY TO THE TREASURY: RT HON YVETTE COOPER, MP

Responsible for:

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

FINANCIAL SECRETARY TO THE TREASURY: JANE KENNEDY, MP

Responsible for:

- strategic oversight of the UK tax system as a whole including direct, indirect, business and personal taxation;
- tax credits and integration of the tax and benefit system;
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency;
- overall responsibility for the Finance Bill;
- Lead Minister on European and international tax issues and assisting where necessary on broader European issues;
- the voluntary sector, charities, including Corporate Social Responsibility;
- Treasury interest in childcare issues; and
- support to the Chief Secretary on public spending issues and selected Cabinet Committees.

EXCHEQUER SECRETARY: RT HON ANGELA EAGLE, MP

Responsible for:

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

ECONOMIC SECRETARY TO THE TREASURY: KITTY USSHER, MP

Responsible for:

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

MINISTER OF STATE WITH RESPONSIBILITY FOR REVENUE PROTECTION AT THE BORDER: RT HON LIAM BYRNE, MP

Responsible for:

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

Liam Byrne works closely with his ministerial colleagues to shape effective toperational policy, based on the UKBA's experience of implementation.

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Nick Macpherson — **Permanent Secretary**

BUDGET, TAX & WELFARE (BTW)

Mark Neale — Managing Director

OBJECTIVE: Maintaining sound public finances in accordance with the Code for Fiscal Stability; promoting a fair and efficient tax and benefit system with incentives to work, save and invest; and expanding economic and employment opportunities for all.

MINISTERIAL AND CORPORATE SERVICES (MCS)

Louise Tulett — Director of Group Finance, Procurement and Operations

Stephen Parker — Treasury Legal Advisers

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

INTERNATIONAL FINANCE (IF)

Tom Scholar — Managing Director

Stephen Pickford — Managing Director

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

PUBLIC SERVICES & GROWTH (PSG)

John Kingman — Second Permanent Secretary and Managing Director

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

MACROECONOMIC AND FISCAL POLICY

Dave Ramsden — Managing Director

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

OUP STRUCTURE

Office of Government Commerce

Nigel Smith — **Chief Executive OGC**

SUSTAINABILITY ESTATES AND PROCUREMENT
William Jordan — Acting Chief Sustainability and Operating Officer

POLICY AND CAPABILITY
Sally Collier — Executive Director

MAJOR PROJECTS
Jonathan Simcock — Executive Director

OGC BUYING SOLUTIONS
Alison Littley — Chief Executive

United Kingdom
Debt Management Office

Robert Stheeman — **Chief Executive**

POLICY AND MARKETS
Joint Heads of Policy and Markets:
Jo Whelan — Deputy Chief Executive
Joanne Perez

OPERATIONS AND RESOURCES
Jim Juffs — Chief Operating Officer

1 Executive summary

Aims and objectives – 2005-06 to 2007-08

Performance summary – 2007-08

Forward aims and objectives – 2008-09 to 2010-11

Aim and objectives – 2005-06 to 2007-08

1.1 The Treasury is the United Kingdom's economics and finance ministry, and it is responsible for formulating and implementing the UK Government's financial and economic policy. During the 2004 Spending Review (SR2004), which ran for the period 2005-06 to 2007-08, its stated aim was to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

1.2 To support this aim, the Treasury had eight objectives, set under SR2004. These are listed below, and can be broadly categorised under four main headings:

- maintaining stability at home and overseas;
- raising trend growth;
- promoting fairness and opportunity for all; and
- delivering high quality public services.

Table 1.1 HM Treasury's objectives (2005-06 to 2007-08)

Maintaining stability at home and overseas	
Objective I	Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability.
Objective III	Promote efficient, stable and fair financial markets, for their users and the economy.
Objective V	Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.
Raising trend growth	
Objective II[1]	Increase the productivity of the economy and expand economic and employment opportunities for all.
Promoting fairness and opportunity for all	
Objective II	Increase the productivity of the economy and expand economic and employment opportunities for all.
Objective IV	Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest.
Objective VIII	Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies.
Delivering high quality public services	
Objective VI	Improve the quality and cost-effectiveness of public services.
Objective VII	Achieve world class standards of financial management in government.

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

PERFORMANCE AGAINST OBJECTIVES DURING 2007-08

Maintaining stability at home and overseas

1.4 Over 2007-08, the world economy has faced significant challenges due to the disruption in the global financial markets. In recent months, following the end of the reporting period discussed in this report, these globally driven challenges have continued to have implications for the domestic economy. The resilience and stability brought about in the UK by the Government's macroeconomic framework, along with the open and flexible labour, product and capital markets, has meant that the UK has been and remains well placed to meet these challenges.

1.5 The Government's long-term goal is to **maintain macroeconomic stability** in order to deliver a fair society where there is opportunity and security for all. The Government's macroeconomic framework is built on three underlying principles: transparency, responsibility and accountability, and is supported by well established monetary and fiscal policy frameworks that have been in place for the last decade:

- the **monetary policy framework** seeks to ensure low and stable inflation. CPI (Consumer Price Index) inflation ranged between 1.8 and 3.3 per cent between April 2007 and May 2008, and the average over the same period was 2.4 per cent. In May 2008, outside the reporting period for this report, CPI annual inflation rose to 3.3 per cent which resulted in an open letter from the Governor of the Bank of England to the Chancellor which set-out the view of the Monetary Policy Committee (MPC) on why inflation has moved away from the target, the policy action being taken to deal with it, and the period within which the MPC expects inflation to return to the target. As explained further in chapter 2, the open letter system is an integral part of the macroeconomic framework, as established in 1997; and
- the **fiscal policy framework** is based on clear objectives, and underpinned by two strict rules that ensure sound public finances over the medium term while allowing fiscal policy to support monetary policy over the economic cycle. These policies work together in a coherent and integrated way in order to deliver the government's policy objectives. Despite the impact of the financial market disruption on the public finances, and as chapter 2 explains, the Government is still meeting its strict fiscal rules, with public sector net debt remaining below 40 per cent of Gross Domestic Product (GDP) as set by the Sustainable Investment Rule, and the current budget showing a surplus as a percentage of GDP over the economic cycle which began in 1997-98.

1.6 Financial services contribute significantly to GDP, employment and productivity both directly and as an essential enabler for other business, helping to underpin economic growth and prosperity for all and enabling the UK to take a key role in a global economy. However, **instability in global financial markets** can also pose risks to domestic economic stability and welfare. Responding to the turbulence in financial markets has been a critical part of the work of the Treasury since summer 2007. In particular, the Treasury has:

- taken action in relation to Northern Rock plc so as to avert a threat to the stability of the financial system and to avoid a serious disturbance in the wider economy. In February 2008 the Government took the company into a period of temporary public ownership as the best way of meeting its stated objectives of maintaining financial stability, safeguarding depositors' money and protecting the interests of the tax payer;
- worked closely with the Bank of England and the Financial Services Authority in monitoring and taking steps to deal with continuing market difficulties. This includes the launch of an independent review in Budget 2008, headed by Sir James Crosby, supported by the Treasury, into aspects of the mortgage securitisation market;
- worked closely with international counterparts, including in the EU, the G7 and the Financial Stability Forum, to agree regulatory and other actions to address weaknesses in the international arrangements for regulating financial firms and markets; and
- proposed major reforms to the UK's arrangements for dealing with banks and building societies facing difficulties, with a discussion paper published in October 2007 and an extensive consultation paper published in January 2008. The Treasury has consulted widely, through a series of workshops and direct discussions with a range of financial institutions and other interested organisations.

1.7 In addition the Treasury has continued with work to promote UK economic prospects overseas by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable. The disruption in the world's financial markets has reconfirmed the importance of effective and timely global cooperation so that challenges can be faced, and addressed. The UK continues to play a strong role at both the EU and international level to promote global prosperity and economic stability.

Raising trend growth

1.8 The Government has a long term objective to raise the trend rate of growth over the economic cycle, and to do this at least in line with the projections included in Budget 2004 which set out a projected trend growth rate of 2¾ per cent up to the end of 2006. As the economic cycle is not judged to have ended, it is not possible to make an assessment of whether this target has been met or not, although current data are consistent with being on course to meet this target.

1.9 Meeting this objective depends on continuing improvements in the **productivity of the UK economy**, alongside growth in employment. Over the last decade, the UK has increased its rate of productivity growth and narrowed the productivity gap with comparator countries, while at the same time maintaining strong employment growth. This has been based on maintaining macroeconomic stability and the UK's openness to trade, investment and migration. It has also been driven by a programme of microeconomic reforms to ensure markets function efficiently and that barriers to productivity growth are removed. The Government has identified five key drivers to productivity growth (competition; enterprise; innovation; skills; and investment) under which it has initiated reform programmes to address underlying market issues. When considering the issues specific to regional economic growth, these two factors are joined by a third: the devolution of resources and responsibilities to Regional Development Agencies to ensure that economic policy design and delivery is responsive to the particular needs and opportunities of each region.

1.10 To support this agenda, the Treasury is central to delivery of the Government's priority to provide an **effective regulatory system**, which enables businesses to start up, grow and stay competitive. It is undertaking radical reform that will deliver genuine reductions in the cost to business while continuing to deliver the necessary regulatory outcomes. The Government has already committed to a reduction of 25 per cent in the administrative burden through regulation and to ensuring that the benefits of regulation justify the costs. £800 million of savings have already been achieved, with a further £3.5 billion planned by 2010. The Treasury has two important roles here: promoting better regulation within the Treasury (most regulation involving the Treasury is EU-led and relates to Financial Services); and promoting better regulation across Government by improving the regulatory environment for business and public services.

Promoting fairness and opportunity for all

1.11 The Treasury is central to delivering the Government's commitment to delivering **employment opportunities for all**, to enable people to participate in, and seize the opportunities of, the global economy. The Government's approach to this is twofold: integrating the tax and welfare system so that work always pays, and providing everyone with the support they need to find, retain and progress in work. Since 1997, the number of people in employment in the UK has increased by over 3 million to more than 29 million, while the number of unemployed has fallen by over 400,000. Due to the Government's employment strategy and its labour market policies, these improvements have had a particular impact on those members of society traditionally disadvantaged in the labour market – including lone parents, people over the age of 50, and those with health conditions or disabilities.

1.12 Securing employment opportunity is also crucial to **eradicating child poverty**. This is an exceptionally challenging target and there remains slippage against this target overall, although considerable progress continues to be made: between 1998-99 and 2006-07 the number of children in households with low incomes fell by 600,000 from 3.4 million to 2.9 million. The number of children in low income households with incomes below the 60 per cent of 1998-99 median income (held constant in real terms) has fallen by 1.7 million. However, if the Government is going to meet this target then there needs to be a renewed drive on child poverty over the next decade. *Ending child poverty: everybody's business*[2] published alongside Budget 2008, set out the Government's approach and further areas of work that will help develop a strategy for 2020. This will include new approaches to increasing parental employment and increasing incomes, and tackling deprivation in communities to improve poor children's life chances. The 2007 CSR reconfirmed the Government's commitment to child poverty eradication.

1.13 The Government has a long-held objective to **protect the environment**, through the development of sustainable and economically effective policies. That commitment has been restated and strengthened in the 2007 CSR with the development of a new PSA to tackle climate change and protect the environment for generations to come. The Treasury has a key role in delivering the Government's commitment to sustainable development, including environmental protection.[3] The Treasury has a particular contribution to the Government's environmental priorities in ensuring that policies are efficient, effective and economically sustainable. This will be achieved by designing the Treasury's policies and challenging others' to ensure they are economically sensible, value for money, and affordable within overall fiscal constraints, including through appropriate use of fiscal instruments.

[2] www.hm-treasury.gov.uk/budget/budget_08/documents/bud_bud08_child.cfm
[3] The Treasury's sustainable development action plan sets out the links between Treasury's objectives and those of sustainable development. http://www.hm-treasury.gov.uk/media/9/1/sustainable_development160807.pdf

Delivering high-quality public services

1.14 Treasury has a central role to play in the Government's objective to **deliver world-class public services** through sustained investment matched by reform. Over the last ten years, this strategy has generated real improvements in public services and has been supported by: a fiscal framework that ensures sound public finances and protects investment; stable and sustainable economic growth that enables resources to be released for priorities; outcome based Public Service Agreements; and ambitious efficiency savings across central government to release further resources to the front-line and other priority areas.

1.15 The Treasury has two PSA targets that relate directly to this objective. The first target defines the Treasury's role in **helping departments to deliver** their PSA targets, with an overall target of 100 per cent of departments meeting their PSA target commitments. To date, approximately 80 per cent of SR2004 PSA targets were given overall summary assessments of progress by departments in the 2007 round of Autumn Performance Reports (APRs) and, of those, approximately 60 per cent were reported as being met, ahead or on course. As part of the same PSA, Treasury has a role in **helping departments meet their efficiency commitments** of £20 billion a year by 2007-08. To the end of December 2007 over £23 billion of efficiency savings had been reported by departments and local authorities, and over 77,600 net workforce reductions against a target of 70,600, as well as 12,600 re-allocations to the front-line.

1.16 The Treasury's commitment to public sector reform was reconfirmed in the 2007 CSR when the new performance framework for the 2007 CSR period was launched, including the setting of 30 key priority PSAs for the whole of Government and Departments publishing Departmental Strategic Objectives to define what they would achieve over the period.

1.17 The second PSA target that relates directly to this objective is led by the **Office of Government Commerce**, and is to deliver a further £3 billion saving by 2007-08 in central civil government procurement. The Treasury reported in its 2007 APR published in December 2007[4] that this target had been met early – latest figures show that £4.2 billion of savings have been made, and continue to be made, across central government.

1.18 The Treasury continues to take forward the **financial management agenda**, with a commitment to deliver improvements in three key areas: corporate structures and governance in departments; people skills for both finance and non-finance professionals; and data processes and management information. In addition, over 2007-08 the Treasury has highlighted the need for departments to focus on performance management alongside the control of expenditure and has sought a more active engagement with the wider public sector to share best practice in performance and financial management.

Maintaining an effective and efficient economics and finance ministry

1.19 In order for the Treasury Group to deliver on commitments made in SR2004, it needs to have a robust corporate strategy with strong **corporate governance** arrangements to enable the right decisions to be taken at the right times to support the management of the department and ensure it remains an effective and efficient economics and finance ministry.

1.20 In turn, the department needs to be supported by effective **corporate services**. In particular, Treasury works to manage its workforce fairly and efficiently, enabling the development of skills and expertise among staff that represent the society they serve; to manage its finances transparently and diligently; to provide a safe and sustainable working environment; and be equipped to communicate effectively with its stakeholders both within and outside government.

1.21 The Treasury's **capability review** was published on 17 December 2007.[5] The review found both strengths and areas for development in the department. Specifically, the review praised the department's ability to base choices on evidence, set direction, focus on outcomes and plan, resource and prioritise, but highlighted a need to build both capability of staff and common purpose with stakeholders. The Treasury has a challenging agenda to strengthen the department in five core areas over the next three years to achieve the Treasury Board's vision for 2011.

[4] www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf

[5] www.hm-treasury.gov.uk/about/about_capability.cfm

PUBLIC SERVICE AGREEMENTS 2005-06 to 2007-08

Aims, objectives and targets

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

1.23 Each SR2004 PSA target is underpinned by a PSA Technical Note[6] which sets out how the target is measured, how success is defined, the sources of the relevant data, and any other relevant information such as geographic or demographic coverage.

1.24 Contributions to performance against these objectives are made from across the Treasury Group.

Reporting terminology

1.25 Standard terminology in line with Treasury central guidance to departments has been adopted when reporting against all targets.

Table 1.2: Reporting Terminology – Final Assessments

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

Table 1.3: Reporting Terminology – Interim Assessments

Term	Definition
Met early	Target has been met ahead of schedule.
Met-ongoing*	The target is still live, but is measured on a continuous basis.
Ahead	Progress is exceeding plans and expectations.
On course	Progress is in line with expectations.
Slippage	Progress is slower than expected.
Slippage in Parts	Used where a target has multiple parts and part of the target is showing slippage.
Not yet assessed	A new target for which data are not yet available.

[6] http://www.hm-treasury.gov.uk/documents/public_spending_reporting/public_service_performance/psp_hmt_technote.cfm

Progress against PSA targets in 2007-08

1.26 The following table gives a summary assessment of progress on each of the Treasury's outstanding PSA targets from SR2002 and SR2004. Chapters 2 to 5 give more detailed information on progress against each of the targets.

Table 1.4: Summary Assessment of Progress

Objective	PSA Target		Dec 2007[7]	Jun 2008
Aim	PSA1 SR2004	Demonstrate by 2008 progress on the Government's long – term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projection.	On Course	On Course
	PSA1 SR2002	*Demonstrate progress by 2004 on the Government's long-term objective of raising trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.*	*On Course*	*On Course*
I	PSA2 SR2004	Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent as measured by the 12 month increase in the Consumer Prices Index (CPI). SR2002 target same as SR2004.	Met-Ongoing*	Met-Ongoing*
	PSA3 SR2004	Over the economic cycle, maintain: • public sector net debt below 40 per cent of Gross Domestic Product (GDP); and • the current budget in balance or surplus. SR2002 target same as SR2004.	*On Course*	*On Course*
II	PSA4 SR2004	Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. (Joint target with Business, Enterprise and Regulatory Reform (BERR.))	*On Course*	*On Course*
	Equivalent SR2002 PSA target	*Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Joint target with (BERR.))*	*On Course*	*On Course*
	PSA5	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate. (Joint target with Department for Work and Pensions (DWP.))	On Course	On Course
	Equivalent SR2002 PSA target	*Demonstrate progress by spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle. (Joint target with DWP.)*	*On Course*	*On Course*
	PSA6	Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. (Joint target with (BERR) and Communities and Local Government (CLG).)	On Course	Slippage

[7] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf

Table 1.4: Summary Assessment of Progress

Objective	PSA Target		Dec 2007[7]	Jun 2008
	Equivalent SR2002 PSA target	*Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Joint target with BERR and CLG.)*	*On Course*	*Slippage*
III	There are no PSA targets relating to Objective III			
IV	PSA7	Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. (Joint target with DWP.)	Slippage	Slippage
V	PSA8	OVERALL RATING SLIPPAGE IN PARTS		
	PSA8 (i)	Promote increased global prosperity and social justice by: working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards. SR2002 target same as SR2004.	On Course	On Course
	PSA8 (ii) a HIPCs	Promote increased global prosperity and social justice by: ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008; and that	On Course	On Course
	PSA8 (ii) b MDGs	Promote increased global prosperity and social justice by: ensuring international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs). (Joint target with Department for International Development (DFID.)	Slippage in Parts	Met
	PSA8 (iii) Lisbon Goals	Promote increased global prosperity and social justice by: working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008.	Slippage	Slippage
VI	PSA9	OVERALL RATING SLIPPAGE IN PARTS	Slippage	Slippage
	PSA9 (i)	Improve public services by working with departments to help them meet their Public Service Agreement (PSA) targets. (Joint target with the Cabinet Office.)		
	Equivalent SR2002 PSA target	*Improve public services by working with departments to help them meet their Public Services Agreement (PSA) targets, consistently with the fiscal rules. (Joint target with the Cabinet Office.)*	*Slippage*	*Slippage*
	PSA9 (ii)	Improve public services by working with departments to help them meet their: efficiency targets amounting to £20 billion a year by 2007-08, consistently with the fiscal rules.	Ahead	Ahead
	PSA10	Deliver a further £3 billion saving by 2007-08 in central government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives.	Met Early	Met Early
VII	There are no PSA targets relating to Objective VII.			
VIII	There are no PSA targets relating to Objective VIII.			

FORWARD AIM AND OBJECTIVES FOR 2008-09 TO 2010-11

1.27 The Treasury Group has two Departmental Strategic Objectives (DSOs) for the 2007 CSR period which runs from 1 April 2008 to 31 March 2011:

- Maintaining sound public finances; and
- Ensuring high and sustainable levels of economic growth, well being and prosperity for all.

1.28 Both DSOs are underpinned by a series of outcomes which provide a level of detail of specific delivery priorities.

1.29 The DSOs cannot be delivered without supporting systems, processes, resource management and corporate capability. The Treasury is therefore committed to enhancing the effectiveness and efficiency of its corporate services over the period. As such, the Treasury Group is formulating a Departmental Corporate Objective (DCO) to sit alongside the DSOs which will capture corporate activities and outcomes.

1.30 In addition, the Treasury Group will be a delivery partner for seven of the Government's Public Service Agreements (PSAs) for the 2007 CSR period. These PSAs are:

- Raise the productivity of the UK economy (PSA 1);
- Deliver the conditions for business success in the UK (PSA 6);
- Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions (PSA 7);
- Maximise employment opportunity for all (PSA 8);
- Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020 (PSA 9);
- Lead the global effort to avoid dangerous climate change (PSA 27); and
- Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals (PSA 29).

1.31 Delivery against the Treasury Group's DSOs will enable it to fulfil its commitments to these PSAs.

1.32 In order to assess performance against the DSOs, the Treasury Group has set a number of performance indicators for each DSO outcome. A fuller description of these indicators and how they will be used by the Treasury Group to monitor performance can be found in *HM Treasury Group Departmental Strategic Objectives 2008-2011*[8] published in December 2007. As the 2007 CSR period went live on 1 April 2008, there is no reporting in this document on performance against the Treasury Group's DSOs. The HM Treasury Group will report on progress in due course and in line with central guidance to departments on such performance reporting.

[8] Available on the HM Treasury website at www.hm-treasury.gov.uk/about_strategic_objectives.cfm

2

Maintaining stability at home and overseas

Includes:

Objective I	Maintain a stable macroeconomic environ ment with low inflation and sound fiscal finances in accordance with the Code for Fiscal Stability
	PSA Target 2 – inflation
	PSA Target 3 – sound public finances
	The contribution of the Debt Management Office (DMO)
Objective III	Promote efficient, stable and fair financial markets, for their users and the economy
	There is no PSA Target for this objective
Objective V	Promote UK economic prospects by pur suing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable
	PSA Target 8(i) – global economy
	PSA Target 8(ii) – Heavily Indebted Poor Countries/Millennium Development Goals
	PSA Target 8(ii) – Lisbon goals

INTRODUCTION

2.1 This chapter describes how the Treasury Group is seeking to maintain economic stability at home and overseas. It describes Treasury's ongoing role in working to maintain stability in financial markets, and also includes reporting against the Treasury's Public Service Agreement (PSA) targets on:

- inflation;
- sound public finances; and
- increasing global prosperity and social justice.

2.2 While primary delivery of these targets sits within core Treasury, contributions are made from across the Treasury Group. As such, this chapter also includes a description of the role of the Debt Management Office (DMO) and its delivery of treasury management services and related policy.

SUMMARY

2.3 Over 2007-08, the world economy has faced significant challenges due to the disruption in the global financial markets. In recent months following the end of the reporting period discussed in this report, these globally driven challenges have continued to have implications for the domestic economy. The resilience and stability brought about in the UK by the Government's macroeconomic framework, along with the open and flexible labour, product and capital markets, has meant that the UK has been and remains well placed to meet these challenges.

2.4 The Government's long-term goal is to **maintain macroeconomic stability** in order to deliver a fair society where there is opportunity and security for all. The Government's macroeconomic framework is built on three underlying principles: transparency, responsibility and accountability, and is supported by well established monetary and fiscal policy frameworks that have been in place for the last decade:

- the **monetary policy framework** seeks to ensure low and stable inflation. CPI inflation ranged between 1.8 and 3.3 per cent between April 2007 and May 2008, and the average over the same period was 2.4 per cent. In May 2008, outside the reporting period for this report, CPI annual inflation rose to 3.3 per cent which resulted in an open letter from the Governor of the Bank of England to the Chancellor which set out the view of the Monetary Policy Committee (MPC) on why inflation has moved away from the target, the policy action being taken to deal with it, and the period within which the MPC expects inflation to return to the target. As explained later in this chapter, the open letter system is an integral part of the macroeconomic framework, as established in 1997; and
- the **fiscal policy framework** is based on clear objectives, and underpinned by two strict rules that ensure sound public finances over the medium term while allowing fiscal policy to support monetary policy over the economic cycle. These policies work together in a coherent and integrated way in order to deliver the government's policy objectives. Despite the impact of the financial market disruption on the public finances, and as this chapter explains, the Government is still meeting its strict fiscal rules, with public sector net debt remaining below 40 per cent of Gross Domestic Product (GDP) as set by the Sustainable Investment Rule, and the current budget showing a surplus as a percentage of GDP over the economic cycle which began in 1997-98.

2.5 Financial services contribute significantly to GDP, employment and productivity both directly and as an essential enabler for other business, helping to underpin economic growth and prosperity for all and enabling the UK to take a key role in a global economy. However, **instability in global financial markets** can also pose risks to domestic economic stability and welfare. Responding to the turbulence in financial markets has been a critical part of the work of the Treasury since summer 2007. In particular, the Treasury has:

- taken action in relation to Northern Rock plc so as to avert a threat to the stability of the financial system and to avoid a serious disturbance in the wider economy. In February 2008 the Government took the company into a period of temporary public ownership as the best way of meeting its stated objectives of maintaining financial stability, safeguarding depositors' money and protecting the interests of the tax payer;
- worked closely with the Bank of England and the Financial Services Authority in monitoring and taking steps to deal with continuing market difficulties. This included the launch of an independent review in Budget 2008, to be headed by Sir James Crosby, supported by the Treasury, into aspects of the mortgage securitisation market;
- worked closely with international counterparts, including in the EU, the G7 and the Financial Stability Forum, to agree regulatory and other actions to address weaknesses in the international arrangements for regulating financial firms and markets; and

- proposed major reforms to the UK's arrangements for dealing with banks and building societies facing difficulties, with a discussion paper published in October 2007 and an extensive consultation paper published in January 2008. The Treasury has consulted widely, through a series of workshops and direct discussions with a range of financial institutions and other interested organisations.

2.6 In addition the Treasury has continued with work to promote UK economic prospects overseas by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable. The disruption in the world's financial markets has reconfirmed the importance of effective and timely global cooperation so that challenges can be faced, and addressed. The UK continues to play a strong role at both the EU and international level to promote global prosperity and economic stability.

OBJECTIVE 1:

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

2.7 There are two PSA targets relating directly to this objective: PSA 2 which relates to inflation and PSA 3 which relates to sound public finances.

PSA2 - Inflation

PSA Target		Dec 2007[1]	Jun 2008
PSA2 SR2004	Inflation to be kept at the target specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent as measured by the 12 month increase in the Consumer Prices Index (CPI).) SR2002 target same as SR2004.	Met- Ongoing*	Met- Ongoing*

Delivery

2.8 The Treasury seeks to deliver PSA 2 by setting, implementing and enhancing its monetary policy framework, which is based on four principles:

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

2.9 Since its introduction in 1997, the monetary policy framework has successfully delivered a long sustained period of low and stable inflation as well as one of the lowest inflation rates in the G7. The Treasury Select Committee recently noted that "the MPC deserves a significant amount of credit for ensuring that inflation over the last decade has been both lower, and less volatile, than in preceding decades"[2]. The monetary policy framework has provided the platform for record employment levels and higher investment, productivity and economic growth.

2.10 In line with the principles set for the monetary policy framework and building on announcements made last year by the Chancellor and Prime Minister on the process for appointments to the MPC, the Treasury announced on 30 January 2008, that it will, as far as possible, publish a timetable for appointment of an external MPC member before a vacancy becomes available. The Treasury will also, as far as possible, announce details of who it has decided to appoint, in sufficient time to be consistent with allowing the Treasury Select Committee three months for their pre-commencement hearings. The Chancellor has also recently announced that, in future, the Government will advertise vacancies for the Governor and Deputy Governors of the Bank of England and also for external members of the MPC, consistent with the principles of open competition.

Performance

2.11 CPI inflation ranged between 1.8 and 3.3 per cent between April 2007 and May 2008. The average over the same period was 2.4 per cent and the individual quarterly averages are shown in Table 2.1. UK inflation of 3.3 per cent in May 2008 compares with 3.7 per cent in the Euro zone and 4.2 per cent in the US. The Retail Prices Index (RPI) measure of inflation over the same period has ranged between 3.8 per cent and 4.5 per cent and has averaged 4.1 per cent.

[1] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[2] The Monetary Policy Committee of the Bank of England: ten years on, Treasury Select Committee, July 2007 www.publications.parliament.uk/pa/cm200607/cmselect/cmtreasy/299/299.pdf

2.12 In May 2008 CPI annual inflation rose to 3.3 per cent, exceeding the threshold above which the Governor of the Bank of England, as set out in the Remit for the Monetary Policy Committee, is required to write an open letter to the Chancellor. In his letter, the Governor set out the view of the Committee on why inflation has moved away from the target, the policy action being taken to deal with it, and the period within which the Monetary Policy Committee expects inflation to return to the target. The letter can be found on the Bank of England website[3]. The Chancellor published a response to the Governor at 10.30am on the same day[4].

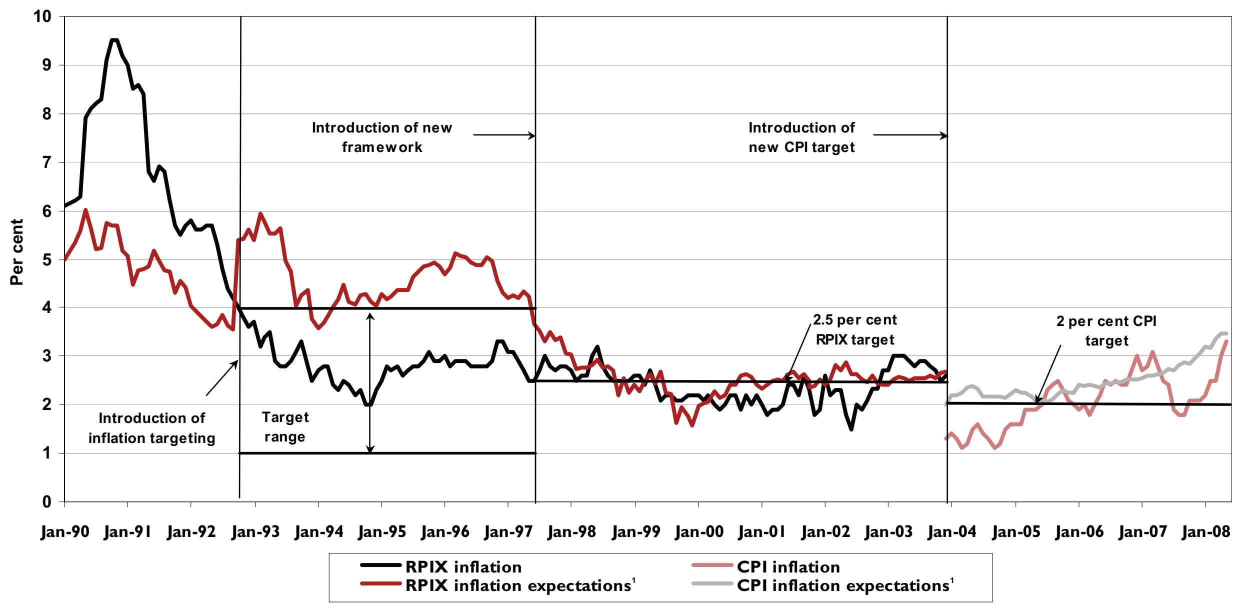
2.13 The open letter system is an integral part of the macroeconomic framework. It requires the Governor to explain to the Chancellor the reasons for any deviation in inflation of more than one percentage point above or below target, plus the action the MPC proposes to take, the expected duration of the deviation and how the proposed action meets the remit of the MPC. The MPC's forward-looking approach has been a cornerstone of economic policy since 1997. The Chancellor, in his response, underlined that the Government will continue to support the MPC in the forward-looking decisions it takes in the future.

Table 2.1 Inflation Performance 2007-08

	2007 Q2	2007 Q3	2007 Q4	2008 Q1
Average CPI (per cent)	2.6	1.8	2.1	2.4

2.14 The current (June) average of independent forecasts for CPI inflation for 2008 Q4 is 3.2 per cent and for 2009 Q4 is 2.2 per cent as shown in Chart 2.2. Market expectations of inflation 10 years ahead remain around the CPI target.

Chart 2.2 Inflation Performance and Expectations



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

Source: ONS, Bank of England and HM Treasury.

[3] http://www.bankofengland.co.uk/monetarypolicy/pdf/cpiletter080616.pdf
[4] http://www.hm-treasury.gov.uk/media/9/5/letter_chx_governor170608.pdf

Quality of data systems

2.15 The CPI data are sourced from the Office for National Statistics (ONS).

Risks to delivery

2.16 With inflation expected to remain above target over most of 2008 and into 2009, the risk remains that inflation could deviate from target for longer than expected. The pressures from higher energy and food prices, which have been affected by a number of global factors including poor harvests affecting supplies and higher demand from emerging markets, are expected to raise headline inflation in the near term. However, the average of independent forecasts in June indicate that forecasters expect CPI inflation to be at 2.2 per cent in the fourth quarter of 2009, and average earnings growth remains subdued. While some market-based measures of inflation expectations appear to have risen, these data have been more difficult to interpret in the light of the recent financial market disruption. Budget 2008[5] and the Bank of England's May Inflation Report[6] set out the prospects and risks to inflation.

Future plans

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

PSA 3 – Sound public finances

PSA Target		Dec 2007[7]	Jun 2008
PSA3 SR2004	Over the economic cycle, maintain: • public sector net debt below 40 per cent of Gross Domestic Product (GDP); and • the current budget in balance or surplus. SR2002 target same as SR2004.	*On Course*	*On Course*

Delivery

2.18 The Treasury seeks to deliver PSA 3 by implementing and continuing to enhance the fiscal policy framework. The principles and key components of the fiscal policy framework are set out in the *Code for Fiscal Stability*.[8] The Code requires the Government to state its objectives and rules through which fiscal policy will operate. The Government's fiscal policy objectives are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and
- over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

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

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

[5]:www.hm-treasury.gov.uk/budget/budget_08/bud_bud08_index.cfm
[6] Inflation Report, May 2008, Bank of England: access via www.bankofengland.co.uk/publications/inflationreport/irlatest.htm
[7] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[8] www.hm-treasury.gov.uk/documents/uk_economy/fiscal_policy/ukecon_fisc_code98.cfm

Performance

2.20 Performance against this target in 2007-08 was as follows:

- public sector net debt was 36.7 per cent of GDP, below the 40 per cent ceiling of the sustainable investment rule; and
- the current budget shows an average surplus as a percentage of GDP over the economic cycle which began in 1997-98.

2.21 As it is too soon to assess whether or not the economic cycle has ended, it is not possible to make an assessment of whether this target has been met or not, although current data are consistent with being on course to meet this target.

2.22 The reclassification of Northern Rock to the public sector will bring its assets and liabilities temporarily into the public finances. In line with the *Code for Fiscal Stability,* while Northern Rock remains in the public sector the Government will measure performance against PSA 3 using figures excluding its impact.

Quality of data systems

2.23 Underlying data are sourced from the ONS.

Risks to delivery

2.24 The Treasury seeks to deliver PSA 3 and reduce risks to delivery by:

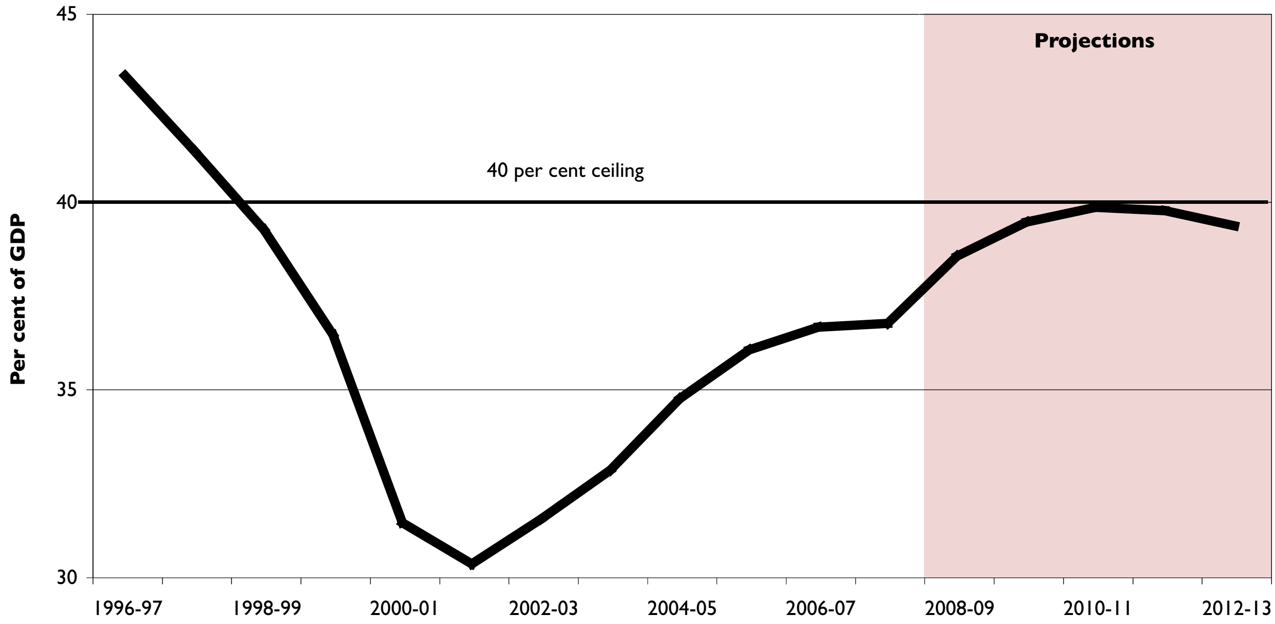
- continuously monitoring the state of the public finances to ensure that any risks to the target are identified as soon as they emerge, and by regularly updating, and publishing, forecasts of government revenues and spending in accordance with the provisions of the Code for Fiscal Stability, including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

Future plans

2.25 Budget 2008 set out the Government's strategy to ensure sound and sustainable public finances over the medium term:

- public sector net debt is projected to remain low and stable over the forecast stabilising below 40 per cent of GDP as illustrated in Chart 2.3; and
- the current budget shows an average surplus as a percentage of GDP over the economic cycle that began in 1997-98. The current budget moves clearly into surplus from 2010-11 onwards.

Chart 2.3 Meeting the Sustainable Investment Rule



Source: ONS and HM Treasury

Central government treasury management – the role of the Debt Management Office (DMO)

Delivery

2.26 The DMO is the executive agency of the Treasury specialising in the provision of policy advice on, and the delivery of, the government's financing requirement through the sale of gilts and Treasury bills and other market operations. It also provides treasury management advice and a range of other related services to government. The DMO performs these functions primarily to contribute to Objective I. In carrying out its functions it also has regard to Objective III (Promote efficient, stable and fair financial markets). Since July 2002, the Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) have been integrated within the DMO. The objective of the PWLB is to lend capital sums to, and collect repayments from, local authorities and thereby minimise local authorities' cost of borrowing. The objective of the CRND is to provide a fund management service to public sector clients.

2.27 Whilst the DMO is not directly accountable for a PSA target, it does have core objectives as follows:

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

Performance

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

2.29 **Debt management -** the gilt remit for 2007-08 was successfully delivered, with an estimated outturn from gilt sales of £58.5 billion (cash) raised through 34 auctions. In addition, the DMO provided advice to HM Treasury on the formulation of the 2008-09 debt and cash management remits. The latter were published by HM Treasury in the Debt and Reserves Management Report 2008-09[9] on 12 March 2008. The DMO introduced an electronic automated bid capture system for gilt auctions in May 2007 which has reduced the publication times for auction results from an average of 20 minutes in 2006-07 to 9.6 minutes in 2007-08. The introduction of electronic bid capture has improved the efficiency with which auctions have been conducted and has reduced the risk exposure of the gilt market primary dealers by reducing the time between auction closure and release of auction results by the DMO.

2.30 The **cash management** remit for 2007-08 was successfully delivered. The DMO continues to measure and monitor the performance of Exchequer cash management against a series of quantitative and qualitative indicators. Performance against a series of key performance indicators will be published in the DMO's Report and Accounts 2007-08. During the year, the DMO extended the range of instruments that it could trade for cash management purposes to include the capability to purchase foreign currency instruments and simultaneously to swap the proceeds into sterling. It also brought on stream the ability to trade gilt delivery-by-value transactions for settlement via the London Clearing House.

2.31 The DMO via the **Public Works Loan Board (PWLB)** advanced loans to local authorities of £10.1 billion (total gross advances) in 2007-08. This increased to £50.1 billion of the total loans outstanding to PWLB borrowers.

2.32 The DMO continued to support additional issues of **National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB)** by hedging HM Government's consequential exposure to the equity market.

2.33 The DMO continued to manage the **gilt registration** contract with Computershare Investor Services Plc on behalf of HM Treasury following the transfer of the registration function from the Bank of England in December 2004. The DMO also continued to offer a Gilt Purchase & Sale Service, administered by Computershare, which provides retail investors with a simple and economical way to buy and sell gilts.

Risks to delivery

2.34 In order to meet its objectives the DMO must transact daily in the financial markets. As a consequence the DMO faces significant operational and market risks. DMO management places great emphasis in monitoring and managing these risks. Further information on its risk management processes can be found in the DMO's Annual Report and Accounts (in particular the Statement on Internal Control) to be published in summer 2008.

2.35 In view of the scale and diversity of the items within the business plan and the challenging market conditions, the DMO will retain the flexibility and capability in its management of risk to enable it to respond to changing priorities appropriately.

Future plans

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

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

[9] www.hm-treasury.gov.uk/budget/budget_08/documents/bud_bud08_dmo.cfm

OBJECTIVE III:

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

2.37 There is no PSA target for this objective.

Delivery

2.38 Financial markets play a unique and vital role in the wider economy and society in the UK and globally by:

- intermediating between borrowers and savers;
- helping firms and households to manage risks; and
- enabling wealth to be stored, accessed and transferred.

2.39 Financial services contribute significantly to GDP, employment and productivity both directly and as an essential enabler for other business, helping to underpin economic growth and prosperity for all and enabling the UK to take a key role in a global economy. However, instability in global financial markets can also pose risks to domestic economic stability and welfare and responding to the turbulence in global financial markets has been a critical part of the work of the Treasury since summer 2007.

2.40 The Treasury aims to maximise the contribution of financial markets to economic success, through markets that operate efficiently and fairly. To this end, the Treasury works very closely in partnership with the Financial Services Authority (FSA) and the Bank of England on issues of financial services stability and regulation. The Treasury also works closely with the Home Office, Police and Security Services on financial crime and combating terrorist finance. Finally, the Treasury firmly believes in maintaining a strong relationship with the financial sector (e.g. on proposed legislation and in the High Level Group on City Competitiveness) and its users (e.g. Financial Inclusion Task Force).

2.41 The Treasury is responsible for the policy and legislative framework for regulating financial services, and in particular for the Financial Services and Markets Act (FSMA) and amendments to it, which gives day-to-day responsibility for setting and implementing rules to the FSA. One of the Treasury's key levers to forward its agenda is legislation, both primary (e.g. the Unclaimed Assets Bill) and secondary (e.g. amendments to the Regulated Activities Order of the Financial Services and Markets Act). In addition, the Treasury has a direct operational role (e.g. through asset freezing).

Performance

2.42 A key factor affecting the Treasury's work since summer 2007 has been the continuing turbulence in global financial markets. In particular, the Treasury has:

- taken action in relation to Northern Rock plc so as to avert a threat to the stability of the financial system and to avoid a serious disturbance in the wider economy. In February 2008 the Government took the company into a period of temporary public ownership as the best way of meeting its stated objectives of maintaining financial stability, safeguarding depositor's money and protecting the interests of the taxpayer. Northern Rock is being run on a commercial basis, at arms length from the Government. The Treasury will, on behalf of the taxpayer, and like any other responsible shareholder, play an active role in holding the company to account for its performance. The Chancellor has approved the business plan for the company drawn up by the Executive Chairman of Northern Rock, Ron Sandler;

- worked closely with the Bank of England and the FSA in monitoring and taking steps to deal with continuing market turbulence. This includes the launch of an independent review in Budget 2008, to be headed by Sir James Crosby, supported by the Treasury, into aspects of the mortgage securitisation market;

- worked closely with international counterparts, including in the EU, the G7 and the Financial Stability Forum, to agree regulatory and other actions to address weaknesses in the international arrangements for regulating financial firms and markets; and

- proposed major reforms to the UK's arrangements for dealing with banks and building societies facing difficulties, with a discussion paper published in October 2007 and an extensive consultation paper published in January 2008. The Treasury has consulted widely, through a series of workshops and direct discussions with a range of financial institutions and other interested organisations.

2.43 Good progress is being made on the **Financial Inclusion** goal, shared by Government and the banking sector, to halve the number of adults without access to a bank account - with 800,000 people brought into banking between 2002-03 and 2005-06. Good progress is also being made in the delivery of key initiatives supported by the current Financial Inclusion Fund (2005-08) of £170 million, such as the £42 million Growth Fund for third sector lenders and a £47.5 million fund for the recruitment and training of new money advisers.

2.44 In December 2007, the Treasury published *Financial inclusion: an action plan for 2008-11*[10], which sets out how Government will use the £130 million Financial Inclusion Fund to achieve its financial inclusion objectives in the next spending period.

2.45 Otto Thoresen published the final report of his **independent review of money guidance** on 3 March 2008[11]. This report sets out a high-level blueprint for a national money guidance service to provide the people of the UK with the knowledge, understanding and confidence to make better decisions about money issues. In line with the report's conclusions, the Government is implementing a £12 million two-year pathfinder, or large-scale trial, for a money guidance service, in partnership with the FSA.

2.46 To improve the efficiency of **institutional investors** the Government agreed a statement of principles on the disclosure of voting by institutional investors in June 2007. This will improve the transparency of decision-making by institutional investors and their accountability to members and retail clients. On 31 March 2008 the Treasury launched a consultation on the Myners principles[12] in response to the National Association of Pension Funds[13] progress review of the Myners principles for pension funds. The consultation proposes a set of refreshed and simplified, higher-level principles and the development of a comprehensive suite of authoritative best practice guidance and tools.

2.47 In its work on the **review of mutuals legislation** the Government consulted in June 2007 on how best to amend the legislative framework for cooperatives and credit unions, to enable them to compete with proprietary companies and deliver social inclusion objectives more effectively. The Government is considering the responses and will consult on implementing legislation during 2008.

2.48 On 17 May 2007, HM Treasury published a second consultation on proposals for a **UK Unclaimed Assets Scheme – Unclaimed assets distribution mechanism**[14] focusing on the proposed distribution mechanism. Following consultation[15] and an enquiry by the Treasury Select Committee[16] the Dormant Bank and Building Society Accounts Bill[17] was introduced into the House of Lords on 7 November 2007.

2.49 In March 2007 the new independent and self-regulatory body for UK payment systems governance, the **Payments Council**, held its first board meeting. In November 2007 the Payments Council opened a public consultation on strategic cooperation issues relating to the future of payments. Also in November 2007, the reforms agreed in November 2006 to improve certainty and transparency for cheque users came into effect on schedule, and will appear in the Banking Code from March 2008.

2.50 At EU level, on 27 March 2007, EU Finance Ministers reached a political agreement on the text of the **Payment Services Directive**, which was subsequently endorsed by the European Parliament on 24 April 2007 in a first reading deal. The directive aims to create a single EU market in payment services, and should also help to support the finalisation of the industry-led project to create a Single Euro Payments Area, with pan-European payment schemes for payments made in euro. On 19 December 2007, the Treasury published a consultation document on the UK policy approach towards implementation.

2.51 The **Chancellor's High Level Group (HLG)** on the competitiveness of the UK financial services industry met in June 2008. The group is examining a wide range of topics related to the future success of the industry, and the scope for Government and industry action.

[10] www.hm-treasury.gov.uk
[11] www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm
[12] www.hm-treasury.gov.uk/newsroom_and_speeches/press/2008/press_32_08.cfm
[13] www.napf.co.uk/
[14] Unclaimed assets distribution mechanism: a consultation available at http://www.hm-treasury.gov.uk/consultations_and_legislation/unclaimed_assets/consult_unclaimedassets_distribution.cfm
[15] A UK unclaimed assets scheme - summary of responses to consultation" 8th November 2007 available at http://www.hm-treasury.gov.uk/consultations_and_legislation/unclaimed_assets/consult_unclaimedasset_responsesummary.cfm
[16] Government response 9th October 2007 available at: http://www.publications.parliament.uk/pa/cm200607/cmselect/cmtreasy/1028/1028.pdf
[17] For more information on the Bill visit: http://www.hm-treasury.gov.uk./consultations_and_legislation/unclaimed_assets/consult_unclaimedassetscheme_index.cfm

2.52 The Treasury has taken significant steps during the course of the year to improve public and private sector safeguards against **money laundering and terrorist financing**. Important reforms have included the launch in October 2007 of a new Asset Freezing Unit in the Treasury and the adoption of strengthened Money Laundering regulations in December. The Treasury has also held the Presidency of the Financial Action Task Force (FATF) this year and has encouraged FATF engagement with the private sector and refreshed the FATF's mandate.

2.53 The Tripartite authorities have also been working for improvements in the arrangements for handling **cross-border financial crises**. The Treasury is also working with other Member States on options for improving crisis management arrangements in the EU following the ECOFIN conclusions under the Finnish Presidency.

Risks to Delivery

2.54 Risks include:

- difficulty in achieving objectives using primarily national policy tools while markets – and associated risks – are increasingly global in nature;
- the world economy is now facing a more challenging environment than previously experienced;
- high mobility of financial firms leading to risk of relocation if the regulatory regime applied in the UK is inappropriate; and
- legal risks of review and challenge of the Treasury's actions.

Future Plans

2.55 The impact of continuing turbulence in global financial markets remains an important issue in 2008-09. To help forward the Treasury's agenda and manage the risks outlined above, the Treasury will:

- continue to manage its relationship with Northern Rock according to the published Shareholder Relationship Framework Document. It will also work closely with the European Commission on the investigation announced in April 2008 in relation to State aid to Northern Rock;
- work closely with the Bank of England, the FSA and international counterparts and institutions in monitoring and assessing options for dealing with difficulties in the global financial markets and their impact on the UK;
- work with international counterparts on reforms to regulation of international markets, in particular to follow up ideas related to colleges of supervisory authorities, and reforms to deposit guarantee schemes in the EU and improvements in transparency of markets. The G7 group of countries agreed on a series of important recommendations in April 2008, which the Treasury will be seeking to ensure is implemented swiftly across the major financial markets and in the EU; and
- introducing new legislation to improve arrangements for dealing with banks and building societies facing difficulties, following the conclusion of the consultation exercise launched in January 2008.

2.56 The Chancellor's High Level Group will meet again to discuss progress on the four workstreams (regulation, skills, the wholesale insurance industry and the promotion of the City through United Kingdom Trade and Investment (UKTI)) as well as other issues affecting the competitiveness of the sector, such as transport and immigration.

2.57 An update to the work programme in respect of the Government's commitment to examine the feasibility of a sovereign sukuk issuance, including a response to the recently closed public consultation, was published at the 3rd meeting of the Islamic Finance Expert's Group on 2 June 2008. A further update is expected around 2008 PBR. Negotiations on reform of the Undertakings for Collective Investment in Transferable Securities Directive (UCITS),[18] bringing potentially big cost savings for UK asset managers, will begin in 2008, and are due to conclude before the European Parliament dissolves for election in April 2009.

[18] www.hm-treasury.gov.uk/Documents/Financial_Services/eu_financial_services/fin_eufs_uciys.cfm

OBJECTIVE V:

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

2.58 PSA target 8 relates specifically to this objective and is divided into separate elements. It states that the Treasury will:

- promote increased global prosperity and social justice by:

  PSA8(i) - working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards (page 35);
  PSA8(ii)a - ensuring that 90 per cent of Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008 (page 36);
  PSA8(ii)b - international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs), (see page 37); and
  PSA8(iii) - working with our European (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon Goals by 2008 (see page 39).

2.59 The overall rating for this PSA is Slippage in Parts. The individual elements to this are fully described below.

PSA 8(i) – Global economy

PSA Target		Dec 2007[19]	Jun 2008
PSA8 (i)	Working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards. SR2002 target same as SR2004.	On Course	On Course

Delivery

2.60 This PSA target is delivered primarily through close and collaborative working relationships with the IMF and the World Bank who assess whether countries comply with the agreed codes and standards of best practice in the international financial architecture. The UK holds an appointed seat at the Executive Board of the IMF and the World Bank, and is an active participant of the International Monetary and Financial Committee (IMFC). This enables the UK to play an influential role in shaping the priorities of these institutions and gaining widespread acceptance of the importance of codes and standards in the international financial system, which is particularly important in light of recent turbulence in financial markets. Furthermore, the UK actively seeks to promote the Treasury's international agenda through its membership of both the G7 and the G20, and is currently preparing its agenda for when the UK takes up the presidency of the G20 in 2009.

Performance

2.61 The Treasury continues to be on course to meet this target. Under the codes and standards initiative, the International Monetary Fund (IMF) and the World Bank monitor observance by countries against 12 individual codes and standards[20], which act as benchmarks for good practice, transparency and market integrity. The initiative therefore aims to strengthen the international financial architecture and reduce the likelihood of financial crises. At the end of December 2007, 144 countries, more than three quarters of the IMF membership, had participated in the codes and standards initiative. This has risen from 137 in December 2006 and 109 in June 2004, with nearly 1000 assessments, reassessments and updates having been produced by March 2008, compared with 914 in December 2006 and 724 in April 2005. Over three quarters of the assessments, reassessments and updates have been published.

[19] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[20] Further information is available at www.imf.org

2.62 As the lead department for relations with the IMF, the Treasury continues to work on a range of global prosperity issues, as outlined in the Treasury's annual report to Parliament on the UK and the IMF[21]. Key achievements in 2007 include the adoption of a revised framework for IMF bilateral surveillance; a commitment to take this reform programme further through the adoption of a Statement of Surveillance Priorities and Responsibilities in 2008; and working towards agreement on a landmark package for Quota and Voice Reform, which has subsequently been implemented and a new and comprehensive financial framework, the foundations of which have now been laid.

Quality of data systems

2.63 The IMF provides information on the number of Reports on the Observance of Standards and Codes (ROSCs) completed. Further information is available from their website.[22]

Risks to delivery

2.64 The Treasury aims to address the risk that no new countries will sign up to the codes and standards initiative by continuing to advocate the initiative through its representation on the Executive Board of the IMF and World Bank, and also at the IMFC, G7 and G20. The UK itself is committed to undertaking all 12 codes and standards modules – 8 have been completed to date and in 2007 the UK has made further progress towards completing the outstanding modules. The UK is also working to obtain key improvements to ROSCs, in particular to see how they can be adapted to focus more on the greatest risks to international financial stability.

Future plans

2.65 The UK will continue to use formal and informal networks to encourage continued progress on the codes and standards initiative and to achieve the UK's international objectives at the IMF. The UK will also make further progress in its commitment to complete all 12 modules.

PSA 8(ii)a – Heavily indebted poor countries (HIPC)

PSA Target		Dec 2007	Jun 2008
PSA8 (ii)a HIPCs	Ensuring that 90 per cent of all eligible Heavily Indebted Poor Countries (HIPC) committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008;	On Course	On Course

Delivery

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

2.67 The UK has continued to go further than required by the HIPC initiative and delivers 100 per cent bilateral debt relief to HIPCs. The UK remains the second largest contributor to the HIPC Trust Fund and has provided $349 million to finance the multilateral institutions' participation in the Initiative. On top of this, the UK pays 10 per cent of the debt service payments of eligible non-HIPCs to the World Bank[23] and African Development Bank (AfDB)[24] .

[21] www.hm-treasury.gov.uk/documents/international_issues/international_institutions/int_ii_ukimf.cfm
[22] www.imf.org/external/np/rosc/rosc.asp
[23] www.worldbank.org/debt
[24] www.afdb.org/

Performance

2.68 Progress continues to be made in delivering debt relief to the poorest countries under the HIPC initiative and Multilateral Debt Relief Initiative (MDRI). In total, 33 countries have now reached at least decision point under the HIPC initiative. With the addition of Gambia in December 2007, 23 of these have now reached Completion Point and have received irrevocable debt relief. This includes 100 per cent bilateral debt cancellation from the UK and 100 per cent cancellation of their debts to the IMF, World Bank and AfDB under the MDRI. 10 more countries are currently at Decision Point and receiving interim debt relief, while up to a further 8 will be eligible for debt relief when they qualify for HIPC. In terms of the PSA target, 28 countries had reached Decision Point at the end of 2005 and the Treasury's estimate, which is in line with that of the IMF and World Bank, is that at least 25 of these will have completed the Initiative by end of 2008.

2.69 A particular success has also been made in securing a financing solution to clear Liberia's arrears to the IFIs which has enabled Liberia to enter the HIPC initiative. Before it could access debt relief under HIPC, a solution was needed to clear its arrears to the IFIs. After a series of discussions in which the UK played a leading role, the IMF announced in November 2007 that it had received sufficient financing assurances to cover the costs of Liberia's arrears clearance and debt relief. In total, over 80 countries pledged $842 million to this historic effort. Arrears clearance was also secured at the World Bank and AfDB. The UK provided a contribution of £20 million to help Liberia clear its arrears and, having successfully reached its Decision Point, Liberia entered the HIPC initiative in March 2008.

Quality of data systems

2.70 Decision Point and Completion Point for countries in the HIPC initiative are determined by the Boards of the IMF and the World Bank and are made public on the websites of these institutions. Periodic updates on progress are also provided in the World Bank and IMF publication "*Heavily Indebted Poor Countries Initiative: Status of Implementation*".[25]

Risks to delivery

2.71 23 of the 28 countries that had reached Decision Point by end 2005 have now completed the initiative. Of the five countries yet to reach Completion Point, Guinea-Bissau and Chad are not expected to achieve Completion Point by the end of 2008. Two of three remaining countries – Burundi and Guinea – are currently on track and should reach Completion Point in 2008 if they make progress in achieving all their HIPC conditions. It is estimated that the Democratic Republic of Congo may reach Completion Point by end of 2008. However, it must get back on track with its IMF programme and make progress in attaining HIPC conditions in order to do so.

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

Future plans

2.73 The Treasury will continue to work closely with partners to ensure that eligible countries are able to resolve their debt problems through the HIPC Initiative at the earliest opportunity, and that countries are able to meet their development goals without building up unsustainable debt.

[25] www.imf.org/external/np/hipc/2001/092601.pdf

PSA 8(ii)b – Millennium Development Goals (MDGs)

PSA Target		Dec 2007[26]	Jun 2008
PSA8 (ii)b MDGs	Ensuring international partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals (MDGs). (Joint target with Department for International Development (DFID)).	Slippage in Parts	Met

Delivery

2.74 The UK is fully committed to helping to achieve the MDGs, building on the significant progress made in 2005 through the EU and G8 commitments to increase aid by $50 billion annually by 2010, compared to 2004. The UK is on track to meet the EU target of 0.56 per cent Official Development Assistance / Gross National Income (ODA/GNI) by 2010, and to provide 0.7 per cent (ODA/GNI) by 2013. Treasury will continue to work through the international system to encourage our partners to deliver on their aid commitments.

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

2.76 On trade, the UK has raised the need for a freer and fairer global trading system at international meetings. The UK strongly supports an ambitious, pro-development outcome to the Doha Development Agenda negotiations and has pressed partners on the importance of concluding the Doha Development Agenda round of World Trade Organisation (WTO) negotiations at the earliest opportunity.

Performance

2.77 Significant progress has been made against this sub-target during 2007-08, with good progress on implementing reform initiatives in the International Financial Institutions (IFIs) and in improving the effectiveness of EC development assistance. Since the beginning of 2008, four new countries have developed Poverty Reduction Strategies. In the 15th replenishment for the International Development Association (IDA 15), a record £12.6 billion over three years was pledged to the World Bank.

2.78 The Poverty Reduction Strategy (PRS) approach has been widely adopted in countries accessing International Development Association (IDA) resources; 58 countries now have Poverty Reduction Strategy Papers (PRSPs), and a further nine have interim PRSPs. The 2006 baseline survey on monitoring the "*Paris Declaration on Aid Effectiveness*"[27] reaffirmed that partner country and donor commitment to PRSs remains strong.

2.79 The World Bank and IMF no longer approve PRSs or PRS Progress Reports, and therefore no longer produce aggregate reports of progress in preparing PRSs, which were the previous source of data for this indicator. The assessment has therefore been made on the basis of the World Bank's "*Results-Based National Development Strategies: Assessment and Challenges Ahead*".[28]

2.80 Of the 62 countries covered by the assessment, 13 per cent were judged to have taken significant action towards having operational development strategies,[29] although some further action is needed, and a further 67 per cent were judged to have made progress, although not yet enough, with the basis for even more substantive progress. In total 80 per cent had strategies assessed as either largely developed or with actions that had been taken. This was an increase from 64 per cent in 2005 (with 8 per cent assessed as largely developed, and 56 per cent as having actions taken). It also exceeds the 75 per cent threshold required by this indicator.

[26] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[27] www.oecd.org/document/20/0,3343,en_2649_15577209_38521876_1_1_1_1,00.html
[28] This differs slightly from the original indicator, because (a) the AER measures all national development strategies, not just PRSs; (b) the AER measures strategies rather than progress reports, and (c) the AER measures progress in developing operational strategies, rather than providing a one-off assessment of quality. However, it is the best available data and is consistent with the monitoring of the Paris Declaration on Aid Effectiveness
[29] Strategies are assessed by the extent to which they provide a unified strategic framework; whether they are prioritised; and whether there are strategic links to the budget.

2.81 Total net Official Development Assistance (ODA) was $104.4 billion in 2006 – almost double the baseline level of $58.3 billion in 2002.

2.82 Seven years into its reform programme, European Commission aid is more effective in terms of faster delivery and improved portfolio performance overall, and progress is being made towards three sub-indicators. These indicators are:

i. a clear policy framework that puts poverty reduction as its central aim for development co-operation and promotes coherence among EU's policies that affect developing countries;
ii. agreement in Council, Commission and European Parliament to implement these objectives; and
iii. continued reforms and adoption of best development practices during the 2005-09 Commission.

The Lisbon Treaty was signed in December 2007, though it has yet to be ratified. It states that the eradication of poverty is the primary objective of EU development policy.

2.83 Good progress is being made within all four International Financial Institutions (IFIs) on the implementation of reform initiatives. Donors secured significant policy reforms during the IDA15 replenishment negotiations including to improve the way the World Bank works with others in fragile states and other poor countries on issues such as climate change, gender, aid effectiveness and the use of policy conditions. The UK's contribution of £2.1 billion made it the largest donor. The African Development Bank continues to make steady progress on internal reform and donors have agreed a record level of support over the next three years. The Asian Development Bank has agreed a number of initiatives but progress has been slower than expected. The European Bank for Reconstruction and Development continues to deliver well on its transition mandate, with 89 per cent of operations in 2007 rated as "excellent – good" in terms of their potential transition impact.

2.84 Progress towards achieving the Millennium Development Goals continues to be uneven. The proportion of people living in extreme poverty fell between 1990 and 2004, and globally child mortality is also declining. However, if current trends continue, targets on reducing the proportion of underweight children and increasing access to basic sanitation will be missed.

Quality of data systems

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

Risks to delivery

2.86 To make progress on Poverty Reduction Strategies (PRSs), the international community needs to maintain a concerted effort to help strengthen national ownership in delivery, including by ensuring full donor compliance with the Paris Declaration. The challenge regarding Official Development Assistance (ODA) is to ensure that levels continue to rise to deliver on the aid volume commitments agreed in 2005 (to provide an additional $50 billion of aid by 2010).

Future plans

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

- advocate an ongoing, active role for international financial institutions in low-income countries;
- maintain pressure for countries to deliver on their aid commitments, which are critical to achieving the MDGs;
- support the conditions for growth in developing countries; and
- support all of the UK development agenda where appropriate.[30]

[30] As set out in the new PSA29 published in 2007 Pre-Budget Report and Comprehensive Spending review at www.hm-treasury.gov.uk/media/D/0/pbr_csr07_annexc_92.pdf

PSA 8(iii) – Lisbon goals

PSA Target		Dec 2007[31]	Jun 2008
PSA8 (iii)[32] Lisbon Goals	Working with our European Union (EU) partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008.	Slippage	Slippage

Delivery

2.88 The Treasury and other government departments continue to work with EU Member States and institutions such as the European Commission and the European Parliament to advance the pace of economic reform at national and Community level. This work will continue to take place in particular through the ECOFIN Council and its preparatory bodies; the Competiveness Council and its preparatory bodies and other related council formations and the Spring European Council with its long-standing focus on economic reform.

2.89 While domestic structural reforms remain the primary responsibility of individual Member States, the Treasury has engaged proactively with our EU partners to encourage progress towards the goals of the Lisbon Strategy. The Spring European Council has agreed:

- renewed commitment to the Lisbon strategy for growth and jobs with refreshed integrated guidelines and commencement of the next three year cycle;
- work on a new Community Lisbon Programme – Community level action to support growth and jobs;
- to strengthen multilateral surveillance of Member States actions on economic reform and endorsed country specific recommendations for prioritising actions on important structural reforms; and
- to start reflecting on the future of the Lisbon Strategy in the post 2010 period. The UK believes the EU should prepare a strategy which is robust to new trends and continues to ensure sustainable growth and opportunities for all.

2.90 In October 2007 the UK published "*Global Europe – meeting the Economic and Security Challenge*"[33] setting out its vision for an open and outward looking Europe with seven priority areas, including on strong, fair and sustainable growth to equip Europe for the challenges of globalisation.

2.91 In addition, the UK, with Germany and Sweden, in March 2008 published "Social Bridges II"[34] on the importance of human capital to meeting the challenges of globalisation through building social bridges to ensure that individuals are equipped to work in today's economy and can adapt to work in tomorrow's, which in turn helps society as a whole reap the benefits of globalisation.

Performance

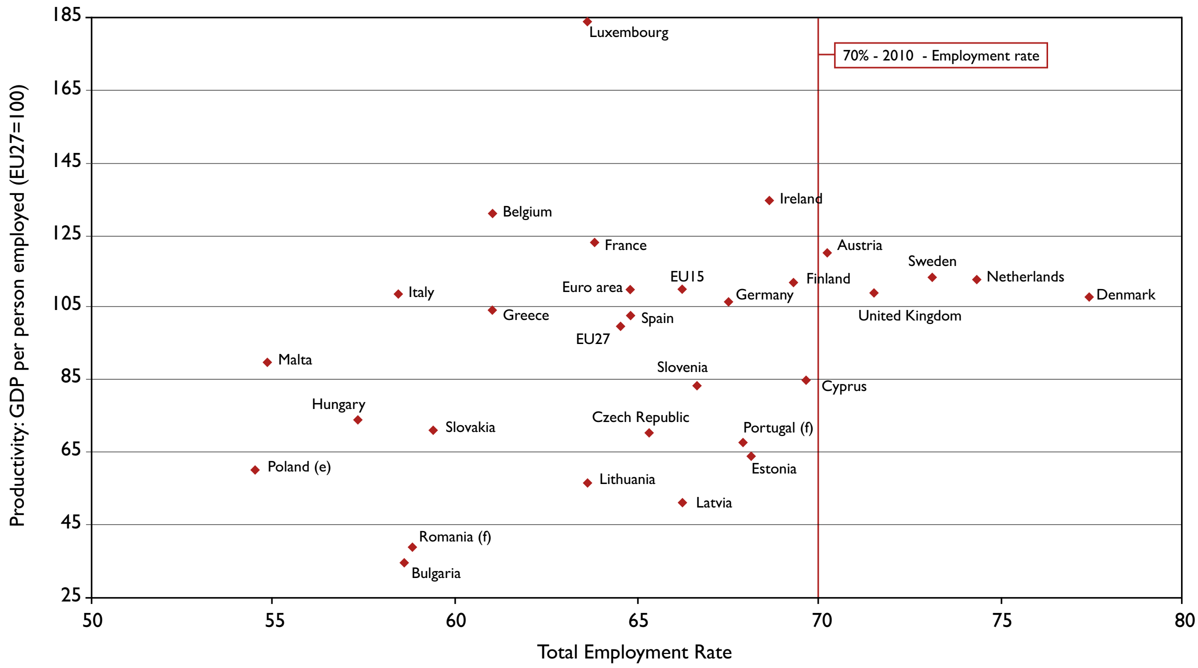
2.92 At the Lisbon European Council in March 2000, the leaders of the EU committed to a ten-year programme of structural reform to improve growth and employment across the EU. Eight years into this programme progress has been made to open up new markets to competition, modernise the Community's competition rules and promote better regulation in the EU. However progress has not been fast enough, consequently there is slippage against this target.

2.93 The risk remains high that Europe will fail to realise the strategic ambitions of the Lisbon strategy, particularly its aim of achieving 70 per cent employment rates across the EU by 2010. Since 1999, one year before the Lisbon process began, EU 27 employment has risen by 2.7 per cent. While part of this appears to be driven by structural improvements, much of it seems to be cyclical. Nevertheless, based on the most recently-available data, EU 27 employment remains well below target at 64.5 per cent in 2006 and further efforts are therefore required to meet the 2010 target. With an employment level of 71.5 per cent in 2006, the UK, however, is one of only five Member States who have already met the 2010 Lisbon employment target.

[31] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[32] The SR2002 PSA target was given a final assessment of Partly Met in the 2007 Autumn Performance Report published December 2007 www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[33] See Global Europe – meeting the Economic and Security Challenges, October 2007. For more information see www.fco.gov.uk/Files/kfile/FCO_BEU_DOC_GlobalEurope71022.pdf
[34] For more details see Social Bridges II, available at: www.hm-treasury.gov.uk/documents/international_issues/european_economic_reform/social_bridges_ii.cfm

2.94 Living standards in the EU still lag behind those in the US and other key advanced economies. Living standards in the EU15 are around 30 per cent lower than in the US, and 35 per cent lower for the EU25. The productivity gap between the EU and the US has been increasing. Using the latest available data (2005) the productivity gap on a per worker basis (EU15) increased from 23.2 per cent in 1999 to 29.5 per cent in 2005 and on a per hour basis (EU15) from 12.8 per cent in 1999 to 19.4 per cent in 2005. However, productivity growth has picked up in 2006, likely causing a slight narrowing in the gap, although this has been primarily cyclical. The current employment and productivity situation is illustrated in Chart 2.4.

Chart 2.4 Productivity (GDP per person employed) and employment rate



Source: the data is drawn from the Eurostat structural indicators data base. All data is for 2006. Figures for Portugal and Romania are forecasts and figures for Poland are estimates.

2.95 Based on this analysis, two years away from the original 2010 deadline, it is clear that the Lisbon Goals will not be realised in full. The EU and its Member States still need to implement significant economic reforms to improve the flexibility of products, capital and labour markets and to encourage greater investment in skills and innovation.

Quality of data systems

2.96 Measurement of progress uses the set of structural indicators developed, produced and maintained by Eurostat, and mandated by the Council of the European Union. The data for the productivity and employment measures are sourced from the Eurostat structural indicators database. EU25 and EU27 data is not currently available for both productivity measures. Outturn data is subject to a time lag due to national data collection and Eurostat collation and standardisation and can periodically be revised subsequent to publication.

Risks to delivery

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

Future plans

2.98 While the Lisbon Strategy is approaching its 2010 deadline, structural reform is clearly an ongoing process and new challenges are emerging, including competition from emerging economies, ageing populations, the rising importance of human capital, EU enlargement and climate change. The UK will therefore be focusing on ensuring that a comprehensive economic reform strategy for post-2010 is developed which is robust to these new trends and challenges and continues to ensure strong, sustainable growth and prosperity with fairness and opportunity for all. In this context, the Treasury will continue to work with EU finance and economics ministries, the European Commission and other EU partners, including the current Slovenian and forthcoming French Presidencies.

3

Raising trend growth

Includes:

	PSA Target 1 – trend rate of growth
Objective II	Increase the productivity of the economy and expand economic and employment opportunities for all
	PSA Target 4 – productivity growth
	PSA Target 6 – regional growth
Better regulation	

INTRODUCTION

3.1 This chapter describes how the Treasury Group is seeking to raise the trend rate of growth. It includes reporting against three of the Treasury's Public Service Agreement (PSA) targets on:

- trend rate of growth;
- productivity; and
- regional economic growth.

3.2 In addition, this chapter details the Treasury's role in the Better Regulation agenda.

SUMMARY

3.3 The Government has a long term objective to raise the trend rate of growth over the economic cycle, and to do this at least in line with the projections included in Budget 2004 which set out a projected trend growth rate of 2¾ per cent up to the end of 2006. As the economic cycle is not judged to have ended, it is not possible to make an assessment of whether this target has been met or not, although current data are consistent with being on course to meet this target.

3.4 Meeting this objective depends on continuing improvements in the **productivity of the UK economy**, alongside growth in employment. Over the last decade, the UK has increased its rate of productivity growth and narrowed the productivity gap with comparator countries, while at the same time maintaining strong employment growth. This has been based on maintaining macroeconomic stability and the UK's openness to trade, investment and migration. It has also been driven by a programme of microeconomic reforms to ensure markets function efficiently and that barriers to productivity growth are removed. As such, the Government has identified five key drivers to productivity growth (competition; enterprise; science and innovation; skills; and investment) under which it has initiated reform programmes to address underlying market issues. When considering the issues specific to regional economic growth, these two factors are joined by a third: the devolution of resources and responsibilities to Regional Development Agencies to ensure that economic policy design and delivery is responsive to the particular needs and opportunities of each region.

3.5 To support this agenda, the Treasury is central to delivery of the Government's priority to provide an **effective regulatory system**, which enables businesses to start up, grow and stay competitive. It is undertaking radical reform that will deliver genuine reductions in the cost to business while continuing to deliver the necessary regulatory outcomes. The Government has already committed to a reduction of 25 per cent in the administrative burden through regulation and to ensuring that the benefits of regulation justify the costs. £800 million of savings have already been achieved, with a further £3.5 billion planned by 2010. The Treasury has two important roles here: promoting better regulation within the Treasury (most regulation involving the Treasury is EU-led and relates to Financial Services); and promoting better regulation across Government by improving the regulatory environment for business and public services.

AIM:

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

3.6 PSA1 which deals with the trend rate of growth relates directly to the overall HM Treasury aim.

PSA 1 – Trend rate of growth

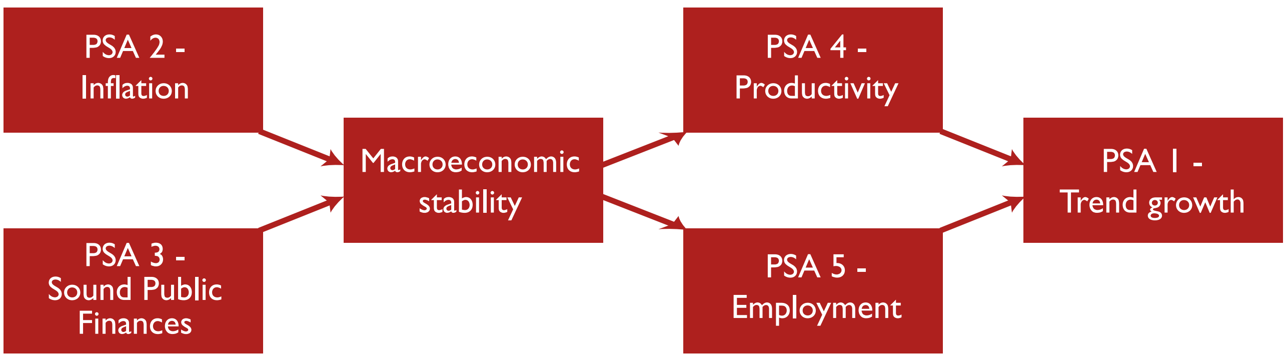
3.7 SR2004 PSA target 1 and SR2002 PSA target 1 relate to the Treasury aim, rather than being linked directly to an objective.

PSA Target		Dec 2007[1]	Jun 2008
PSA1 SR2004	Demonstrate by 2008 progress on the Government's long – term objective of raising the trend rate of growth over the economic cycle by at least meeting the Budget 2004 projection.	On Course	On Course
PSA1 SR2002	*Demonstrate progress by 2004 on the Government's long-term objective of raising trend rate of growth over the economic cycle from the current estimate of 2.5 per cent and make further progress towards increasing trend growth up to 2006.*	*On Course*	*On Course*

Delivery

3.8 The policies and initiatives necessary to achieve the trend output growth PSA targets inter-relate with a number of the Treasury's objectives, including Objective 1 on macroeconomic stability and Objective 11 on productivity and employment. Fig 3.1 illustrates how the relevant PSA targets fit together. The Government's macroeconomic framework supports macroeconomic stability by seeking to ensure low and stable inflation and by maintaining sound public finances. Macroeconomic stability is important in improving growth in productivity and the employment rate over the economic cycle, which in turn increases the trend rate of output growth.

Fig 3.1 Trend growth



Performance

3.9 Over the course of the economic cycle, which started in 1997, the UK economy has proved strong and stable, with GDP growth averaging almost 3 per cent a year and inflation close to the Government's symmetric inflation target. Over the last decade the UK economy has shown clear evidence of improved resilience in response to a number of shocks and has become the most stable of the G7 economies, having previously been one of the least stable. The economy has continued to adapt flexibly to the changing economic circumstances presented by globalisation and technological change, focusing resources on areas of comparative advantage and creating almost 3 million jobs. This

[1] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf

resilience and stability, brought about in the UK by the macroeconomic framework, along with the open and flexible labour, product and capital markets, has meant that the UK is well placed to respond to ongoing global economic pressures and challenges.

3.10 The measure of the Treasury's performance against the PSA 1 is the estimate of the trend rate of non-oil output growth over the economic cycle in relation to the trend projection set out in Budget 2004. The Budget 2004 projection was for 2¾ per cent trend growth between the on-trend point in the third quarter of 2001 and the end of 2006, slowing to 2½ per cent thereafter due to demographic effects. This assessment was revised in *Trend Growth: new evidence and prospects*[2], published alongside the 2006 PBR. In light of new evidence, the projection for growth in the working-age population from 2006Q4 was revised upwards from 0.4 per cent to 0.6 per cent a year, and accordingly the neutral estimate of trend growth from 2006Q4 was revised from 2½ per cent to 2¾ per cent a year.

3.11 The measure of the Treasury's performance in meeting the SR2002 target is the estimate of the trend rate of non-oil output growth over the economic cycle that started in 1997.

3.12 The Treasury estimates trend growth over the economic cycle as the average rate of growth between adjudged start and end-cycle on-trend points or over half cycles. Budget 2008 suggests that the economy passed up through trend during the second half of 2006, although it is too soon to assess whether or not this marks the end of the economic cycle that is judged to have started in the first half of 1997. Data available at the time of Budget 2008 indicated that growth in actual non-oil output (Gross Value Added (GVA)) between 1997H1 and 2006H2 averaged 2.95 per cent a year; and between 2001Q3 - the midcycle on-trend point - and 2006H2 it is estimated to have averaged 2.76 per cent a year as set out in Table 3.2. This compares with 2.46 per cent over the previous cycle, from 1986Q2 to 1997H1.

3.13 Keeping in mind the stage of the reporting period, this evidence is consistent with being on course to meet both the SR2004 and SR2002 targets.

Table 3.2: Estimated trend rates of growth (per cent per annum)

	Trend output per hour worked					
Period	Underlying	Actual	Average hours worked	Employment rate	Adult population	Trend output growth
1986Q2-1997H1	2.12	1.93	-0.11	0.37	0.26	**2.46**
1997H1-2001Q3	2.86	2.61	-0.45	0.49	0.51	**3.17**
2001Q3-2006H2	2.26	2.21	-0.31	0.09	0.75	**2.76**

Quality of data systems

3.14 All the underlying data used in the trend growth calculations are sourced from the ONS.

Risks to delivery

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

Future plans

3.16 The Treasury will continue to monitor closely economic developments affecting this target and the macroeconomic framework. An updated assessment of the cyclical position of the economy will be provided at the time of the 2008 PBR.

[2] www.hm-treasury.gov.uk/media/3/1/pbr06_trendgrowth_345.pdf

OBJECTIVE II:

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

3.17 There are two PSA targets relevant to this objective: PSA4 relates to productivity growth and PSA6 relating to regional growth.

PSA 4 – Productivity growth

PSA Target		Dec 2007[3]	Jun 2008[4]
PSA4 SR2004	Demonstrate further progress by 2008 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. (Joint target with BERR.)	On Course	On Course
Equivalent SR2002 PSA target	*Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany. (Joint target with BERR).*	*On Course*	*On Course*

Delivery

3.18 The Government's strategy for increasing productivity growth, as set out in *Productivity in the UK 7: Securing long-term prosperity*[5], is based on two objectives:

- maintaining macroeconomic stability to ensure businesses and individuals have the certainty needed to make long term investment decisions; and
- microeconomic reforms to tackle market failures, which affect the drivers of productivity explained subsequently in this section.

3.19 To implement this strategy effectively requires a clear focus on the levers the Government has to effect change, which are investment in workforce and skills, investment in infrastructure, taxes and regulation, strengthening competition and market frameworks, and improving public sector efficiency.

3.20 The Government uses these levers to implement reforms that encourage productivity growth through the five key drivers of productivity growth: Competition; Enterprise; Innovation; Skills; and Investment.

3.21 **Competition** drives productivity growth by encouraging efficiency, flexibility and innovation. Policy reforms have made the UK competition authorities more pro-active and independent, with stronger powers for investigating market structures. The UK competition regime is generally considered to be among the best in the world. KPMG's latest peer review of the UK's competition regime's perceived effectiveness shows it ranked third overall and explains that relative to the last review (2004), the UK has narrowed the gap with the US and Germany but has dropped slightly relative to a strongly performing EU regime.

3.22 **Enterprise** – the creation and growth of firms – increases ideas, knowledge and skills and provides incentives for others to innovate through raising competition. Independent reports confirm that the UK is one of the best places in the world to do business.[6] Evidence also suggests that more individuals in the UK are confident that good start-up opportunities exist in their area than individuals in France, Germany or the US.[7]

3.23 **Innovation** raises productivity by allowing firms to improve their productive efficiency or the quality of their products. It also has positive spillovers, as firms can take advantage of other firms' investment in innovation by imitation.

[3] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[4] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[5] HM Treasury, November 2007, http://www.hm-treasury.gov.uk/media/4/0/productivityintheuk7141207.pdf
[6] *Doing Business 2008*, World Bank
[7] GEM (2007) Global Report, http://www.gemconsortium.org/download/1204802535946/GEM_2007_Executive_Report.pdf

Although robust evidence over a long historical period is scarce, the UK is often thought to lag behind other countries in terms of innovation; for example R&D spending as a proportion of GDP is lower in the UK than in the US, Germany or France.[8] The Sainsbury Review[9] concluded that further action on science and innovation was needed to secure the UK's comparative advantage in high-value sectors.

3.24 The level of **skills** in the workforce has a direct impact by making workers more productive, but can also have wider impacts by helping to generate new technologies and ideas. The effects of globalisation, including greater international competition, accelerating technological change and changing patterns of consumer demand, are likely to increase the demand for higher-level skills and greater adaptability. The historically poor skills profile of the UK workforce has been gradually improving, with nearly a third of the population now educated at Level 4 and above compared to around a quarter ten years ago.

3.25 **Investment** is closely correlated with productivity performance, as it directly influences how much output a unit of labour can produce. Evidence suggests around half of the productivity gap with the US and two thirds of the gap with France is explained by lower capital per worker.[10] Macroeconomic conditions have been more stable since 1997 than in the previous decade, with lower average inflation and higher average output growth. This has contributed to an increase in business investment growth from 3.5 per cent to 5.2 per cent on average.

Performance

3.26 There is evidence that the UK is making progress in raising its trend rate of productivity growth. Trend productivity growth (output per hour worked) over the first half of the current economic cycle (1997H1-2001Q3) is estimated to have grown by 2.6 per cent a year. This compared with 1.93 per cent over the previous cycle (1986Q2 to 1997H1). Since 2001Q3 output per hour growth has averaged 2.3 per cent per year.

3.27 The latest ONS data also shows the UK is making progress in narrowing the gap with its key competitors on both measures of productivity – output per worker and output per hour worked. Since 1997, the UK has closed the output per worker gap with Germany, narrowed the gap with France by 7 percentage points (from 17 to 10 per cent) and is the only G7 country to have kept pace with the USA's impressive productivity performance.

3.28 Similar progress has been made on an output per hour worked basis. Since 1997 the UK has narrowed the gap with Germany by 10 percentage points (from 27 to 17 per cent), narrowed the gap with France by 7 percentage points (from 24 to 17 per cent) and has kept pace with the USA.[11] Chart 3.3 shows the relative output per hour worked.

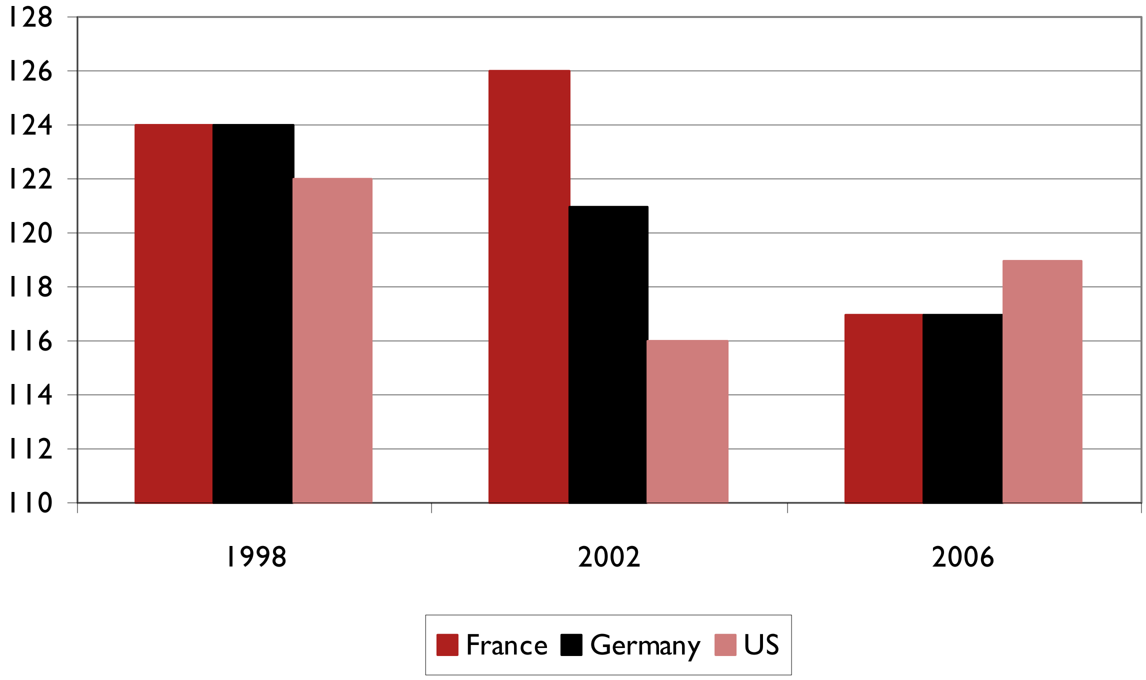
[8] Source: Eurostat

[9] *The Race to the top: A review of Government's science and innovation policies*, Lord Sainsbury of Turville, October 2007. http://www.hm-treasury.gov.uk./media/5/E/sainsbury_review051007.pdf

[10] *Cross-Country Productivity Performance at sector level: The UK compared with the US, France and Germany*, National Institute of Economic and Social Research, September 2007.

[11] Note that these figures were subject to a revision in February 2008, following the release of revised estimates of Purchasing Power Parity-exchange rates by the OECD. This is a routine procedure and does not invalidate previous progress reports.

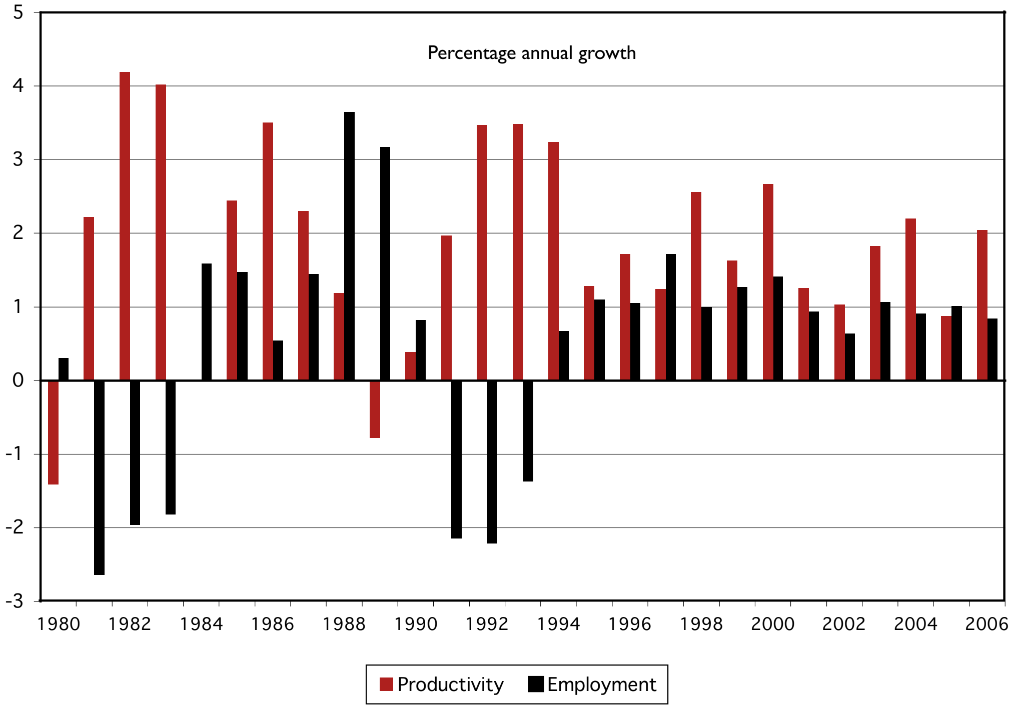
Chart 3.3: Productivity gap (output per hour worked), Index UK = 100



Source: ONS

3.29 The UK's improved productivity performance has occurred during a period of unprecedented employment growth: nearly 3 million more people are in jobs since 1997 and the UK has the second highest employment rate in the G7. Strong employment growth is usually associated with low productivity, as new workers are initially less productive while they learn job-specific skills. The UK is experiencing the longest period of combined sustained productivity and job growth for over 30 years, as illustrated by Chart 3.4.

Chart 3.4: Employment and productivity growth



Source: ONS

Quality of data systems

3.30 Performance against this target is measured using:

- International Comparisons of Productivity (ICP) data: output per worker and output per hour. The data are produced by the ONS based on Organisation for Economic Co-operation and Development (OECD) data; and
- trend productivity growth in the UK over the economic cycle, which is taken from the HM Treasury estimates published in the Budget and PBR.

3.31 The Treasury monitors progress on the productivity gap with data published by the ONS on ICP, which are based on OECD data. Small changes in the ICP series are interpreted with caution to allow for some margin of error in their constituent parts.

3.32 Productivity growth needs to be assessed over the full or half economic cycle in order to estimate its trend rate. Productivity growth is a component of output growth and HM Treasury therefore uses its output growth estimates as a basis for assessing productivity growth.[12] The National Audit Office (NAO) audits HM Treasury's assumptions for the underlying growth rate.

Risks to delivery

3.33 Raising UK productivity growth is a long-term challenge. It takes time for reforms to feed through to higher productivity. Aside from policy, many other trends have an impact on UK productivity growth, in the UK as well as internationally. For this reason the Government has developed a set of yearly indicators centered on the five key drivers of productivity, which help monitor progress in improving the UK's productivity performance.[13] The indicators also provide early warning signs of where more policy action is needed.

[12] *Trend growth: new evidence and prospects*, HM Treasury, December 2006, http://www.hm-treasury.gov.uk./media/3/1/pbr06_trendgrowth_345.pdf
[13] *The 2007 Productivity and Competitiveness indicators*, HMT and BERR, http://www.berr.gov.uk/files/file43540.pdf

Future plans

3.34 Measures announced in the Budget 2008 feature in the plans for the future:

- further implementation of the Leitch[14] and Sainsbury Reviews to build on improvements in the UK skills base, with an additional £60 million in funding for adult training, and to provide a world-class science base and innovation framework, with a renewed focus on supporting innovation across all sectors of the economy;
- action to make better use of transport infrastructure, such as through measures to reduce delays for travelers at Heathrow and an invitation to the private sector to run a number of projects to test road pricing, on top of the major programme of investment announced in the 2007 CSR;
- package of tax simplification and implementation of the business tax reforms announced in Budget 2007 to encourage investment and innovation, as well as a confirmation of the commitment to reduce the administrative cost of regulation to business;
- an independent review of competition in the water sector, as well as progress on business support simplification and measures to ensure better access to Government procurement for small firms to improve competition and market frameworks; and
- a study of public service markets and a new framework for infrastructure procurement to improve public sector productivity.

PSA 6 – Regional growth

PSA Target		Dec 2007[15]	Jun 2008
PSA6	Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. (Joint target with BERR and CLG).	On Course	Slippage
Equivalent SR2002 PSA target	*Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006. (Joint target with BERR and CLG)*	*On Course*	*Slippage*

Delivery

3.35 An essential element of raising the rate of productivity growth in the UK as a whole (as set out in PSA target 4; Productivity Growth) is improving the economic performance of every part of the UK, and helping every region fulfill its economic potential. Trends in regional nominal Gross Value Added (GVA) per head show that regions in the North, Midlands and the West of England have traditionally performed less well than regions in the South East. The Government is determined to improve the performance of these less well performing regions.

3.36 First, the Government has put in place a macroeconomic framework designed to maintain long-term economic stability and help businesses and individuals plan for the future.

3.37 Second, the Government is also continuing to use microeconomic reforms to address the five drivers of productivity (Competition; Enterprise; Innovation; Skills; and Investment) and encouraging more people to move into work. The Government's understanding of regional economic performance is enriched by an appreciation of the underlying drivers of regional growth. At the end of 2007, employment rates in the top three and bottom six regions were within 3.7 percentage points of each other. The skills gap between the top three regions and the bottom six regions - as measured by the percentage of the working age population trained to National Vocational Qualification Level 2 and above - continues to narrow, dropping from 2.8 per cent in quarter four of 1998 to 0.7 per cent in quarter four of 2007. However, productivity differentials remain between the best and worst performing regions. London remains the most productive region, at around 30 per cent over the UK average.

[14] *Leitch Review of skills: Prosperity for all in the global economy – world-class skills*, HM Treasury, December 2006. hm-treasury.gov.uk/Consultations_and_Legislation/consult_index.cfm
[15] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf

3.38 Finally, the Government has sought to devolve significant resources and responsibilities to the Regional Development Agencies (RDAs) to ensure that economic policy design and delivery is responsive to the particular needs and opportunities of each region.

Performance

3.39 To measure progress, the Government has committed itself to the regional economic performance target. The headline target is that:

- each region should grow faster - trend rate of growth of GVA per head is higher in each of the nine English regions between 2002 and 2012 than it was between 1990 and 2002; and
- the persistent gap in regional performance closes - the gap between the average trend rate of growth of GVA per capita of the three above average performing English regions and the six regions with below average performing English regions is lower in 2002 and 2012 than it was between 1990 and 2002.

3.40 To meet this target, the Government is required to demonstrate progress by 2008.

3.41 It is not possible to come to a definitive view about **performance** against the target because trend rates of growth can only be estimated over a full economic cycle using real or deflated Gross Value Added (GVA) data.

3.42 Measurement of the first part of the target is skewed by high price inflation at the beginning of the 1990s, which boosted nominal GVA growth. Because of this price inflation effect, most of the English regions have had lower nominal GVA per head growth between 2002-06 than during the baseline period. Although regional deflators are not available, much of the impact of the nationally higher inflation in the early 1990s can be removed using national deflators. When these are applied to regional GVA per head figures, all but four regions show higher average GVA per head growth in 2002 to 2006 than during the baseline period.

3.43 Annual GVA data for each region is currently only available on a nominal or non-deflated basis after a 12-18 month time lag. The latest data shows that every region experienced growth between 2005 and 2006 on the basis of nominal GVA per head data; the North East growing the fastest at 5.26 per cent.

3.44 Of the four regions with average growth lower than the baseline, it would seem possible that three regions: Yorkshire and Humber; the West Midlands; and East of England would hit the target by 2008. To reach the target, these three regions will need to grow at a faster rate in 2007 and 2008 than they did between 2002 and 2006, but this rate is within the range of typical growth rates that have been seen since 1990. However, it will be challenging for the South East to meet the target. While the growth rate required in the South East has previously been seen, it is outside the range of the region's typical growth rates. If any of the regions do not hit their growth targets then the overall regional economic target cannot be judged to have been met, therefore the target must currently be rated as showing slippage.

3.45 With regard to the second part of the target, there is evidence to suggest that the persistent gap in regional performance between the top and bottom performing regions is narrowing. In 2005-06, average GVA per head for London, the South East and the East of England was 4.47 per cent and 4.41 per cent in the remaining six regions. The gap in growth rates between the lead and lagging regions has fallen from 0.6 per cent in the 1990-2002 baseline period to 0.3 per cent over 2002-06, demonstrating progress against the second part of the regional target.

3.46 During 2007-08, **measures** to stimulate regional economic performance and deliver the target included reviewing regional architecture, improving the regional evidence base and increasing regional input to national policy.

3.47 The *Review of sub-national economic development and regeneration* (SNR), published in July 2007[16], set out recommendations to ensure that economic policy decisions are taken at the right spatial level and to enhance the capacity, effectiveness and efficiency of regional and local delivery agencies to promote sustainable economic growth. In March 2008, BERR and CLG published a consultation document seeking views on the implementation of the recommendations contained in the review.

3.48 The 2007 CSR set out new financial settlements for the RDAs, running between 2008-11. RDAs will have an enhanced role in the 2007 CSR period, including being given executive responsibility for developing a single integrated regional strategy; taking responsibility for managing industrial shocks; and investing £180 million over three years to match the Technology Strategy Board programmes in line with the Sainsbury Review. Each of the RDAs has developed a robust

[16] www.hm-treasury.gov.uk/spending_review/spend_csr07/reviews/subnational_econ_review.cfm

and sustainable value for money plan, enabling them to deliver significant efficiency and value for money savings over the 2007 CSR period.

3.49 Government continues to support the Northern Way growth strategy, with the 2007 CSR providing £45 million funding for the Northern Way between 2008-11. At the Northern Way Summit in November 2007, Secretary of State for BERR announced a £3 million contribution to the Northern Way between 2008 and 2011 to support their policy development and research programmes.

3.50 The RDAs have continued to provide input on Government policy decisions. The RDAs provided input to Budget 2008 around key questions for regional growth; the role of the private sector in promoting economic growth in the regions; regional competitiveness in a global context; and how best to improve evaluation of RDA spend. A response to this input was published alongside Budget 2008.

3.51 HM Treasury has been working closely with BERR to improve RDA value for money and effectiveness by implementing a reformed and simplified RDA Sponsorship Framework. As part of this framework, each region has a growth objective to drive progress towards meeting this PSA.

3.52 ONS has delivered a full regional presence in partnership with the RDAs to support the evidence base for regional policy. In January 2008 the independent Centre for Spatial Economic Research was launched. The Centre's work will further Treasury's regional economic policy evidence base.

Quality of data systems

3.53 Performance against this target is measured through estimates of the trend rate of growth in GVA per capita in each region for the period 2003-08. The gap in growth rates is measured by comparing the average growth rate of regions that had above average growth in GVA per capita with the average growth rate of regions that had below average GVA per capita in 1990-2002 with growth rates for 2003-08.

3.54 The regional GVA series is produced by the ONS and meets all National Statistics quality criteria. To fully appraise regional trend growth, the Treasury will need regional deflators, due to be developed by the ONS in 2009. The absence of regional deflators means that a national deflator is currently applied to the target, which does not account for regional economic subtleties.

3.55 In addition to the regional GVA series, over 20 supporting indicators on employment and the five drivers of productivity are used to assess progress and to inform action needed in support of the target. The latest information for all the PSA indicators is published on BERR's website.[17]

Risks to delivery

3.56 External factors continue to have a strong influence on regional economic performance, including wider national and international economic shocks. The Budget and PBR routinely set out important national economic trends.

3.57 Gaps in the regional economic evidence base may mean that there is a focus on policies that may not have the greatest impact in achieving the required outcomes. The PSA Delivery Agreement (see future plans) highlights Government's priorities for analysis over the 2007 CSR period to mitigate this.

3.58 There is a risk that policies to promote regional economic growth may not completely align with policy delivery at the regional and sub-regional level. The implementation of the SNR will allow better co-ordination of economic development policy and encouraging collaborative working help to ensure policies at all levels are complementary to each other.

Future plans

3.59 The Government has recommitted to the target of improving the economic performance of all English regions by extending this PSA for the period 2008-2012 and published a Delivery Agreement alongside the 2007 CSR setting out how the Government will work together to meet the PSA. The reworded PSA reads: *Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.* The PSA will be led by BERR.

[17] http://stats.berr.gov.uk/reppsa2/

3.60 Government will continue to implement the SNR, drawing on the responses to the published consultation, which will release the economic potential of English regions, cities and localities and allow more effective responses to the ongoing challenge of tackling ongoing pockets of deprivation.

3.61 The SNR confirmed the Government's commitment to a new, expanded round of Regional Funding Allocations. The Government will issue guidance in the summer of 2008, asking regions to advise on priorities by early 2009.

BETTER REGULATION

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

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

3.63 The Government is committed to regulating only when necessary. In practice this means ensuring that the stock of existing regulation either remains relevant or is removed, and that any new regulation is targeted at meeting clear objectives and has benefits that justify the costs. The Government is also committed to reducing the costs of administering regulation by 25 per cent, and to ensuring that the inspection and enforcement of regulation is risk-based and proportionate.

Impact Assessments and Consultation

3.64 The Government uses Impact Assessments when developing new policy in order to determine which proposals will achieve policy objectives best while minimising costs. New style Impact Assessments introduced in May 2007 make estimates of the costs and benefits more transparent. Impact Assessments are published with consultations to help improve engagement and lead to better policy.

3.65 The Treasury initiated 28 consultations and produced 13 final Impact Assessments between 1 April 2007 and 31 March 2008. These documents are all available on the Treasury website[18].

Simplification and Administrative Burden Reduction

3.66 Like all Government Departments, the Treasury publishes an annual Simplification Plan identifying regulations that can be simplified or repealed. This plan also sets out progress against the target to reduce the costs of administering regulation by 25 per cent by May 2010, compared to the level of costs during 2005. The baseline of administrative costs imposed by the Treasury in 2005 was £159 million per annum. Since then further costs of £11million per annum have been introduced.

3.67 The Treasury and the OGC published their second annual simplification plan in December 2007[19]. It identified measures that will reduce the cost of administering regulation by £126 million per annum by May 2010. This will offset the £11million of new costs introduced, and reduce the original baseline by 72 per cent.

Better Regulation across Government

3.68 Simplification Plans published in December 2007 show that Government departments have identified simplification measures that will deliver savings of £3.5 billion by 2010 for businesses and the third sector, with £800 million of savings already delivered.

Better Regulation in Europe

3.69 The Treasury has continued to push for reform of EU laws that generate unnecessary burdens on business, to ensure that the UK remains globally competitive. The UK supports the European Commission's efforts to identify EU

[18] http://www.hm-treasury.gov.uk/Consultations_and_Legislation/consult_index.cfm and http://www.hm-treasury.gov.uk/media/E/5/bud08_impact_147.pdf
[19] Delivering Better Regulation one Year On: HM Treasury's Simplification Plan, December 2007 http://www.hm-treasury.gov.uk./media/4/4/simplificationplan111207.pdf

measures that could be simplified, and will continue to press for savings in the European administrative burdens reduction action plan, and "Small Business Act" which, amongst other things, will include initiatives to reduce burdens on Small and Medium Size Enterprises (SMEs).

3.70 Following Lord Davidson's Review on "gold-plating", the Government launched new guidance in September 2007 to ensure that EU legislation is implemented in a way that fulfils legal obligations, while avoiding unnecessary burdens which can place UK companies at a competitive disadvantage.

Future plans

3.71 Budget 2008, PBR 2007 and departmental simplification plans set out the Government's latest better regulation plans. The Government has committed to:

- consult on the introduction of regulatory budgets which would which would cap the new, annually-recurring cost of regulation for business, including whether to pilot this approach for SMEs or a particular sector;
- an independent review of regulatory guidance to reduce compliance costs;
- an increased focus on minimising the impact of regulation on SMEs; and
- a 30 per cent net reduction in the burden of data requests made by central Government to the front-line, to be reported on in departmental Simplification Plans.

4

Promoting fairness and opportunity for all

Includes:

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

INTRODUCTION

4.1 This chapter describes how the Treasury Group is seeking to promote fairness and opportunity for all. It includes reporting against two of the Treasury's PSA targets on:

- employment; and
- child poverty.

4.2 In addition, this chapter reports against the Treasury Group's objective on protecting the environment, for which there is no related Treasury led PSA target.

SUMMARY

4.3 The Treasury is central to delivering the Government's commitment to delivering **employment opportunities for all**, to enable people to participate in, and seize the opportunities of, the global economy. The Government's approach to this is twofold: integrating the tax and welfare system so that work always pays, and providing everyone with the support they need to find, retain and progress in work. Since 1997, the number of people in employment in the UK has increased by over 3 million to more than 29 million, while the number of unemployed has fallen by over 400,000. Due to the Government's employment strategy and its labour market policies, these improvements have had a particular impact on those members of society traditionally disadvantaged in the labour market – including lone parents, people over the age of 50, and those with health conditions or disabilities.

4.5 Securing employment opportunity is also crucial to **eradicating child poverty**. This is an exceptionally challenging target and there remains slippage against this target overall, although considerable progress continues to be made: between 1998-99 and 2006-07 the number of children in households with low incomes fell by 600,000 from 3.4 million to 2.9 million. The number of children in low income households with incomes below the 60 per cent of 1998-99 median income (held constant in real terms) has fallen by 1.7 million. However, if the Government is going to meet this target then there needs to be a renewed drive on child poverty over the next decade. *Ending child poverty: everybody's business*[1] published alongside Budget 2008 set out the Government's approach and further areas of work that will help develop a strategy for 2020. This will include new approaches to increasing parental employment and increasing incomes, and tackling deprivation in communities to improve poor children's life chances. The 2007 CSR reconfirmed the Government's commitment to child poverty eradication.

4.6 The Government has a long-held objective to **protect the environment**, through the development of sustainable and economically effective policies. That commitment has been restated and strengthened in the 2007 CSR with the development of a new PSA to tackle climate change and protect the environment for generations to come. The Treasury has a key role in delivering the Government's commitment to sustainable development, including environmental protection.[2] The Treasury has a particular contribution to the Government's environmental priorities in ensuring that policies are efficient, effective and economically sustainable. This will be achieved by designing the Treasury's policies and challenging others' to ensure they are economically sensible, value for money, and affordable within overall fiscal constraints, including through appropriate use of fiscal instruments.

[1] www.hm-treasury.gov.uk/budget/budget_08/documents/bud_bud08_child.cfm
[2] The Treasury's sustainable development action plan sets out the links between Treasury's objectives and those of sustainable development. http://www.hm-treasury.gov.uk/media/9/1/sustainable_development160807.pdf

OBJECTIVE II:

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

4.7 There are three PSA targets relating directly to this objective. PSA5 which deals with Employment is described in this chapter. The other targets (PSA4 which deals with productivity, and PSA6 which deals with regional growth) are described in Chapter 3.

PSA 5 – Employment

PSA Target		Dec 2007[3]	Jun 2008
PSA5	As part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle, demonstrate progress on increasing the employment rate. (Joint target with DWP.)	On Course	On Course
Equivalent SR2002 PSA target	*Demonstrate progress by spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle. (Joint target with DWP).*	*On Course*	*On Course*

Delivery

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

4.9 The policy framework underpinning its welfare to work agenda comprises:

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

4.10 The DWP is responsible for the operational delivery of policies through its agencies, and in particular Jobcentre Plus. However, the Treasury also provides an important support and challenge function and works closely with DWP on the development of welfare to work policies. The Government believes that work is the best route out of poverty and is committed to making work pay, by improving incentives to participate and progress in the labour market. The Working Tax Credit and the National Minimum Wage policies developed by the Treasury have helped to improve the financial incentives to work and tackle poverty among working people.

Performance

4.11 The baseline for the SR2004 target is Q2 2005 (April-June 2005)[4], at which time the seasonally adjusted International Labour Organisation (ILO) employment rate for the working age population of Great Britain (GB) was 74.9[5] per cent. Latest quarterly data (February – April 2008) gives a GB employment rate of 75 per cent.

[3] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf

[4] The Office for National Statistics (ONS) is now publishing Labour Force Survey data on a calendar quarter basis, instead of the seasonally quarter previously used. The baseline of this target has therefore been changed and reflected in the PSA Technical Note: www.hm-treasury.gov.uk./documents/public_spending_reporting/public_service_performance/psp_hmt_technote.cfm

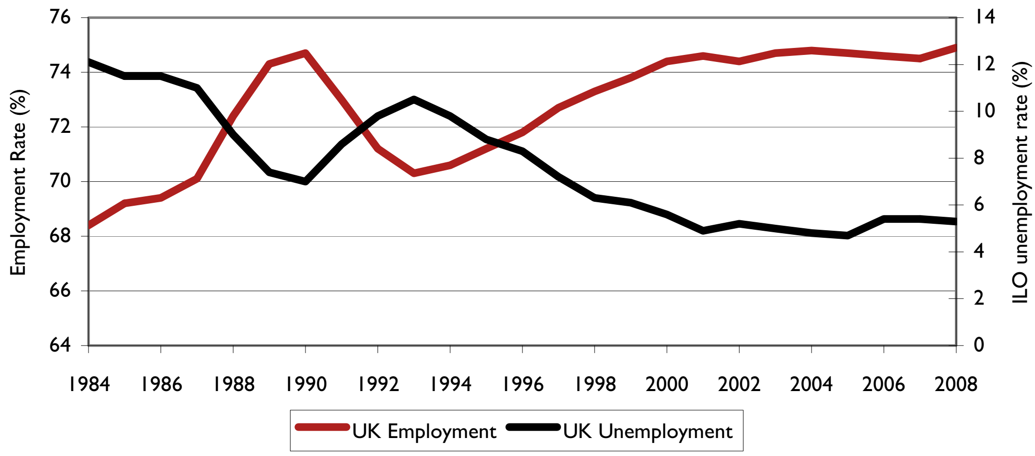
[5] The baseline for 2005 Q2 was increased from 74.8 per cent to 74.9 per cent in December 2007 when the ONS reweighted the data with the latest population estimates.

4.12 The baseline for the SR2002 target is spring (March-May) 2003, at which time the seasonally adjusted ILO employment rate for the working age population was 74.9 per cent and the unemployment rate for the GB working age population was 5.0 per cent. The data for spring (March-May) 2006 give a GB employment rate of 74.6 per cent and a GB unemployment rate of 5.5 per cent.

4.13 Both these targets are measured over the economic cycle and, as set out in Budget 2008[6], it is too soon to assess whether or not the cycle has ended. So a final assessment of the target cannot be reached as yet.

4.14 There has been a rise in the employment rate from 72.8 per cent from the start of the economic cycle in 1997H1. Employment in both the UK and GB is at its highest level since comparable figures began in 1971. Since 1997, the number of people in employment in the UK has increased by over 3 million to more than 29 million, whilst the number of unemployed people has fallen by over 400,000. In January 2008, the Jobseeker's Allowance claimant count fell to below 800,000, the lowest figure since June 1975 and half the level since 1997. Chart 4.1 shows the trend in employment and unemployment figures since the early 1980s.

Chart 4.1: UK employment and unemployment rates



Source: LFS seasonally adjusted March - May figures except 2006 which is February - April

4.15 Additional background on the measurement of this target, including measurement of the economic cycle, is provided in the PSA Technical Note.[7]

Quality of Data Systems

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

Risks to Delivery

4.17 A sharp and sustained rise in unemployment due to a cyclical downturn in the economy would place a burden on Jobcentre Plus and increase pressure on welfare to work programmes.

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

4.19 The Treasury continues to assess the economic outlook and potential impacts on employment opportunity for all. The Treasury works with the DWP on monitoring and improving Jobcentre Plus performance, and assessing the

[6] Budget 2008. HM Treasury. HC 388, March 2008. http://www.hm-treasury.gov.uk/budget/budget_08/report/bud_bud08_repindex.cfm.
[7] Available on the Treasury website. http://www.hm-treasury.gov.uk/media/D/0/psa_technicalnote201207.pdf

potential pressures on delivery under a sustained rise in the claimant count ensuring that there is the appropriate balance between plans for tackling inactivity and the need to maintain pressure on unemployment.

Future Plans

4.20 The employment rates of most disadvantaged groups have increased in the last few years. They remain however well below the national average. Moving towards the Government's long term employment aspiration will therefore require increased employment amongst the most socially excluded groups and those facing the greatest labour market barriers.

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

- rights and responsibilities underpin the welfare reform agenda;
- a personalised and responsive approach to meet individual needs;
- retention and progression, with employment support focussed not just on job entry but also helping people remain and progress into work;
- working in partnership to make the best use of expertise across the public, private and third sectors; and
- devolution and local empowerment, recognising the important role regions, cities and localities should play in strategy and delivery.

4.22 These core principles form the basis of the welfare reform agenda set out by the Government in *Ready for work: full employment in our generation*[8], published in December 2007. *Ready for work* outlined a vision of a welfare system based on working in partnership with employers, training providers and private and voluntary sector partners to ensure that disadvantaged benefit claimants - including the long term unemployed, lone parents and incapacity benefit claimants receive the preparation and support they need to compete effectively in the labour market and to meet employers' needs.

4.23 Lone parents with older children will be expected to actively seek work, helped with an additional package of in-work support; they will accordingly lose eligibility for Income Support solely on the grounds of being a lone parent and move instead to Jobseeker's Allowance (JSA).

4.24 A new Flexible New Deal for all long-term JSA claimants will be introduced, this will offer more responsive and personally tailored support. People still looking for work after twelve months will be referred to a specialist provider to help them into work.

4.25 Steps to provide a more integrated employment and skills service with Jobcentre Plus and the Learning and Skills Council working together more closely on longer-term, support and retention and advancement – delivering a personalised service that enables low-skilled individuals to access the training they need to stay and progress in work.

4.26 From late 2008, an integrated and simplified Employment and Support Allowance (ESA) will replace the current system of incapacity benefits for new claimants. The introduction of ESA will be supported by the national rollout of the successful Pathways to Work programme in 2008, delivered primarily by the third and private sectors.

4.27 As part of the 2007 CSR, the Government announced a new Public Service Agreement PSA8: Maximise employment opportunity for all[9] This PSA will drive further progress on raising the overall employment rate, as well as narrowing the gap, between the employment rates of disadvantaged groups (such as lone parents or people with a disability). Indicators for this PSA will also drive reductions of the numbers on out of work benefits and time spent on these benefits. The Secretary of State for Work and Pensions is the lead Minister for this PSA with other departments, including the Treasury, contributing to delivery.

[8] www.dwp.gov.uk/welfarereform/readyforwork/

[9] Available on the Treasury internet site athttp://www.hm-treasury.gov.uk/media/5/9/pbr_csr07_psa8.pdf

OBJECTIVE IV:

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

4.28 There is only one PSA target relates to this objective and this concerns Child Poverty.

PSA 7 – Child poverty

PSA Target		Dec 2007[10]	Jun 2008
PSA7	Halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020. (Joint target with DWP).	Slippage	Slippage

Delivery

4.29 The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. Since 1997, the Government has undertaken a comprehensive programme of reform to the tax and benefit system with the aims of simplifying the system, eradicating child poverty, and supporting families, promoting savings, and ensuring security for old age.

4.30 Reporting in this section deals primarily with child poverty as that is the area covered by the Treasury's PSA. However, summary information on savings and security in old age is included at the end of this section to place this in the broader context – more detailed information can be found in Budget 2008.

4.31 The Government's child poverty strategy is based on the following priorities:

- increasing employment and raising incomes: helping people who can work to move into employment and progress in work;
- financial and material support: providing additional resources to make sure that work pays and to help families who cannot work;
- ensuring that communities are safe, sustainable places where families can thrive; and
- improving poor children's life chances: improving opportunities and outcomes for children from low-income families.

Performance

4.32 Child Poverty more than doubled in the 1980s and early 1990s but this trend has been reversed. Progress against the SR2004 target to halve child poverty is measured by two indicators:

- the number of children in households with income less than 60 per cent of contemporary median compared with 1998-99; and
- the number of children in households with income less than 70 per cent of contemporary median, combined with material deprivation.

4.33 In addition, as set out in the Child Poverty Review[11] the following indicator was included in the 2007 CSR PSA Delivery Agreement; the number of children in absolute low-income households. The level is fixed as equal to the relative low-income threshold for the baseline year of 1998-99 expressed in today's prices.

4.34 Low-income is defined before housing costs and is reported annually in Households Below Average Incomes (HBAI) statistics. The 1998-99 baseline is 3.4 million children. Between 1998-99 and 2006-07 the number of children in households with relative low-income fell in the UK by 600,000, from 3.4 million to 2.9 million. This is a decrease from 26

[10] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[11] www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_childpoverty.cfm

per cent to 22 per cent of children. The number of children in households with incomes below the 60 per cent of 1998-99 **median income** (held constant in real terms) has fallen by 1.7 million.

4.35 The 2007 PBR announced an increase in the child element of the Child Tax Credit by £25 above standard earning indexation in April 2008 and again in April 2010, and doubling the child maintenance disregard in main income-related benefits by the end of 2008 and again in 2010. Budget 2008 announced a further £50 increase to the child element of Child Tax Credit from April 2009, an increase to the first child rate of Child Benefit to £20 from April 2009, and the introduction of a Child Benefit disregard for Housing Benefit and Council Tax Benefit purposes.

4.36 Taken together reforms announced in Budget 2007, PBR 2007, the 2007 CSR and Budget 2008 will lift around 500,000 more children out of poverty, and make significant progress against the PSA target. Considering the counterfactual of doing nothing other than simply uprating the tax and benefit system, there might have been 1.7 million more children in poverty than there are today[12]. As a result of reforms to the tax and benefit system, by October 2008:

- households with children will be, on average, £370 per year better off compared to 2007-08, and £1,950 better off as a result of all measures since 1997; and
- households with children in the poorest fifth of the population will be, on average, £450 per year better off compared to 2007-08, and £4,100 better off as a result of all such measures since 1997.

4.37 Data on **material deprivation** first became available in March 2006 for 2004-05 and the construction of the combined relative low-income and material deprivation indicator was set out in the new child poverty PSA Delivery Agreement published in October 2007. Between 2004-05 and 2006-07, the number of children in the UK defined as poor using the combined indicator of relative low-income and material deprivation fell by 200,000 from 2.2 million to 2 million.

Quality of Data Systems

4.38 Performance against this target is assessed using the annual Households Below Average Income (HBAI) report published by DWP.

Risks to Delivery

4.39 The relative low incomes measure is a moving target. The Government will continue to review financial support at future Budgets.

Future Plans

4.40 As part of the 2007 CSR, the Government announced a new PSA. PSA9: Halve the number of children in Poverty by 2010-11, on the way to eradicating child poverty by 2020. The PSA Delivery Agreement set out the policies and actions that will have a quantifiable impact by 2010, and those which contribute towards the creation of a virtuous circle to lift children out of poverty. The strategic priorities highlighted in the delivery agreement include reducing poverty through work; reducing poverty through raising incomes; tackling poor living conditions and focusing delivery on at-risk groups.

4.41 Decisions about financial support will continue to be made at Budget and PBR. The Government will continue to work closely with Local Government and partner organisations to develop and deliver policy through the tax and benefit system and public services through the 2007 CSR period.

[12] Treasury analysis based on a comparison of simulated child poverty levels under today's tax and benefit system and the 1997-98 system indexed to today's prices.

Pensions and Savings

Treasury has worked to achieve the Government's commitment to tackle pensioner poverty, promoting greater well-being in later life, encouraging and rewarding saving, and enabling people to meet their income aspirations in retirement. Since1997, the macroeconomic environment has been characterised by economic stability, low inflation and high employment. This has provided the platform on which individuals can now confidently plan for retirement with more people having the ability and opportunity to save.

Pension Credit, launched in 2003, provides the foundation for security for the poorest, whilst maintaining incentives to save by rewarding those who have built up small savings for retirement. This is part of the support package for pensioners that has contributed to almost one million pensioner households being lifted out of relative poverty and over two million pensioner households from absolute poverty - a reduction nearly two thirds - between 1998-99 and 2006-07.

Treasury has worked to enable the Government in its commitment to supporting pensioners who pay income tax. Increases in the age-related tax allowances will mean that by April 2009, only 41 per cent of pensioners aged 65 or over will pay income tax. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000.

As a result of these tax and benefit's measures pensioner households will be on average £1,500 per year better off in 2008-09.

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

In May 2006, in response to the Pension Commission's report, the Department for Work and Pensions (DWP) published a White Paper[13] that proposed reforms to the state and private pensions systems to address the demographic challenge. The Pensions Act 2007 contains the legislation for the state pensions reforms, whilst Government is currently in the process of bringing forward legislation to implement the private pension reforms. The legislation will introduce a new scheme of Personal Accounts, providing those who do not currently have access to adequate pensions savings an opportunity to contribute to a low cost savings vehicle; and introduce automatic enrolment into a workplace pension scheme.

More broadly, this Government has an aim to support saving from childhood through working life and into retirement. This includes introducing the Child Trust Fund, which ensures that, in future, all young people will hold a financial asset at age 18; in addition incentives to save through tax-advantaged products such as Individual Savings Accounts (ISAs) and employee share schemes such as Save As You Earn and the Share Incentive Plan.

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

- ISAs are available indefinitely and Personal Equity Plans (PEPs) will become ISAs automatically; and
- savers can transfer money saved in previous and current tax years from cash ISAs into stocks and shares ISAs.

Building on this package of reforms, and in order to encourage further saving in ISAs, changes to savings limits were announced in Budget 2007; from April 2008 the overall annual ISA investment limit increased to £7,200, with an increase in the cash element to £3,600.

[13] Security in retirement: towards a new pensions system, DWP, 2006

OBJECTIVE VIII:

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

4.42 There is no Treasury-led PSA target for Objective VIII.

Delivery

4.43 The Treasury delivers against Objective VIII in a number of ways. First, it works with other departments to contribute to the development of relevant policy proposals, and to appraise their sustainable development implications. Second, the Treasury uses fiscal instruments and other instruments where appropriate to deliver environmental objectives. Environmental taxes and other economic instruments have an important role to play in securing sustainable development, along with regulation and spending policies. The Treasury's approach to environmental taxation was set out in the *Statement of Environmental Intent*[14] in 1997 and developed further in *Tax and the Environment: using economic instruments*[15], published alongside the 2002 PBR. Third, it is responsible for engaging with other international finance ministries and pursues relevant sustainable development objectives through those relationships and appropriate international fora.

Performance

4.44 The Government is committed to promoting sustainable development, which is vital to ensure and maintain a better quality of life for everyone. To achieve this, strong and stable economic growth and social progress must be balanced with action to protect and improve the environment. Progress on the Government's sustainable development indicators (which include environmental indicators including emissions of greenhouse gases, air quality, river water quality, land use and waste) has been generally positive since the publication of the *Government's Sustainable Development Strategy* in 1999.[16]

4.45 Progress made in the key areas of climate change; transport; waste and aggregates is described fully on the Government's sustainable development website.[17]

4.46 The Treasury has made further progress against its environmental objectives, particularly through the development and use of fiscal measures where it has a direct lead.

4.47 The 2007 PBR announced measures including: changes to reform the taxation of aviation; further support for the development and take-up of microgeneration technologies; confirmation that climate change agreements would be extended until 2017; and action at EU and domestic level to improve energy efficiency in the product market.

4.48 Alongside this, the 2007 CSR increased funds for Defra by an average of 1.4 per cent each year in real terms. This increase will enable Defra to deliver a step change in investment for sustainable waste options totalling £2 billion over the 2007 CSR period and a £200 million increase for flood and coastal erosion risk management across Government. The 2007 CSR also establishes a £1.2 billion Environmental Transformation Fund comprising a £370 million domestic element for demonstration and deployment of low carbon and energy efficient technologies and an £800 million international element. Alongside the 2007 CSR the Treasury published *Moving to a global low carbon economy: implementing the Stern Review*[18], setting out how the UK is implementing the Stern Review of the Economics of Climate Change[19] both at home and with its international partners.

4.49 Budget 2008 set out further medium term commitments and short term action across the transport, energy supply, business and household sectors, including announcing that the first 5 year carbon budgets (statutory limits on total carbon dioxide emissions) will be set alongside Budget 2009.

[14] www.hm-treasury.gov.uk/topics/environment/topics_environment_policy.cfm
[15] www.hm-treasury.gov.uk/media/3/A/adtaxenviron02-332kb.pdf
[16] www.sustainable-development.gov.uk/
[17] www.sustainable-development.gov.uk/progress/index.htm
[18] www.hm-treasury.gov.uk/pbr_csr/documents/pbr_csr07_stern.cfm
[19] www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_Report.cfm

4.50 *The King Review of low-carbon cars*[20] was published alongside Budget 2008 and examines the vehicle and fuel technologies that could help decarbonise road transport. In line with the conclusions of the review, Budget 2008 announced significant restructuring of vehicle excise duty to incentivise motorists to purchase fuel-efficient vehicles; reform to the taxation of business travel; an increase in main fuel duties of 0.5 pence per litre above indexation on 1 April 2010; and measures to incentivise only the most sustainable biofuels.

4.51 The EU Emissions Trading Scheme (EU ETS) is the centrepiece of the UK's climate change pricing strategy – Budget 2008 announced the Government's intention to strengthen EU ETS further by confirming the UK's intention to auction 100 per cent of allowances to the generators' sector, if the future EU framework permits. Alongside this, the announcement of increases in climate change levy rates in 2009 provides further incentives for businesses to raise energy efficiency levels.

4.52 Budget 2008 also announced: funding for the Green Homes Service to help people cut their carbon emissions and their fuel bills; an ambition for all new non-domestic buildings to be zero carbon by 2019; and an extension to the stamp duty exemption for zero carbon homes to flats.

4.42 The Budget and PBR processes also offer an opportunity to monitor the impact and effectiveness of policy. Table 6.2 of Budget 2008 summarises the environmental impacts of Budget measures.

Risks to Delivery

4.53 Further pressures on the competitiveness of UK firms, such as a renewed volatility in the world oil market and/or higher energy prices, could increase restrictions on the use of fiscal instruments to protect the environment.

4.54 Climate change is a global issue that demands a global response. International developments and the success of international negotiations will have a significant impact on the UK and the world's ability to meet climate change objectives.

Future Plans

4.55 The Treasury will continue to play its role in achieving the Government's sustainable development objectives, working with other Government departments and external stakeholders to develop and appraise policies; working with other finance ministries; and continuing to explore the use of economic instruments. Key next steps include:

- implementing reforms to taxation and other policies announced in Budget 2008 including reforming Vehicle Excise Duty, implementing aviation duty to replace air passenger duty (following consultation), and taking steps to help develop the energy services market and promote domestic energy efficiency;
- contributing to the development and monitoring of Government activity under the new Public Service Agreement for 2008-11 to "Lead the global effort to avoid dangerous climate change" and "Secure a healthy natural environment for today and the future";
- working with other departments to take forward the domestic framework for climate change set out in the Climate Change Bill and the policies required to meet those budgets. The Government will set out the first five-year carbon budgets required under the Bill, and its plans to meet them, alongside Budget 2009; and
- working with other departments and external stakeholders on the UK's input to the EU and international negotiations, in particular the EU's 2020 climate change and energy objectives; and international negotiations on climate change through the United Nations Framework Convention on Climate Change and other fora.

[20] www.hm-treasury.gov.uk/media/9/5/pbr_csr07_king840.pdf

5

Delivering high quality public services

Includes:

Objective VI	Improve the quality and cost-effectiveness of the public services PSA Target 9 – improved public services and efficiency PSA Target 10 – procurement savings (this PSA Target is delivered by the Office of Government Commerce)
Objective VII	Achieve world-class standards of financial management in government There is no PSA Target for this objective

INTRODUCTION

5.1 This chapter describes how the Treasury Group is seeking to deliver high quality public services. It includes reporting against two of the Treasury's PSA targets on:

- public services and efficiency; and
- procurement savings.

5.2 In addition, this chapter reports against the Treasury Group's objective on world-class financial management in government, for which there is no related PSA target and the Major Projects Review Group.

SUMMARY

5.3 Treasury has a central role to play in the Government's objective to **deliver world-class public services** through sustained investment matched by reform. Over the last ten years, this strategy has generated real improvements in public services and has been supported by: a fiscal framework that ensures sound public finances and protects investment; stable and sustainable economic growth that enables resources to be released for priorities; outcome based Public Service Agreements; and ambitious efficiency savings across central government to release further resources to the front-line and other priority areas.

5.4 The Treasury has two PSA targets that relate directly to this objective. The first target defines the Treasury's role in **helping departments to deliver** their PSA targets, with an overall target of 100 per cent of departments meeting their PSA target commitments. To date, approximately 80 per cent of SR2004 PSA targets were given overall summary assessments of progress by departments in Autumn Performance Reports (APRs) and, of those, approximately 60 per cent were reported as being met, ahead or on course. As part of the same PSA, Treasury has a role in **helping departments meet their efficiency commitments** of £20 billion a year by 2007-08. To the end of December 2007 over £23 billion of efficiency savings had been reported by departments and local authorities, and over 77,600 net workforce reductions against a target of 70,600, as well as 12,600 re-allocations to the front-line.

5.5 The Treasury's commitment to public sector reform was reconfirmed in the 2007 CSR when the new performance framework for the 2007 CSR period was launched, including the setting of 30 key priority PSAs for the whole of Government and Departments publishing Departmental Strategic Objectives to define what they would achieve over the period.

5.6 The second PSA target that relates directly to this objective is led by the **Office of Government Commerce**, and is to deliver a further £3 billion saving by 2007-08 in central civil government procurement. The Treasury reported in its *2007 Autumn Performance Report (APR)* published in December 2007[1] that this target had been met early – latest figures show that £4.2 billion of savings have been made, and continue to be made, across central government.

5.7 The Treasury continues to take forward the **financial management agenda**, with a commitment to deliver improvements in three key areas: corporate structures and governance in departments; people skills for both finance and non-finance professionals; and data processes and management information. In addition, over 2007-08 the Treasury has highlighted the need for departments to focus on performance management alongside the control of expenditure and has sought a more active engagement with the wider public sector to share best practice in performance and financial management.

[1] www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[2] For further details see 2004 Spending Review: efficiency progress to December 2007, HM Treasury, March 2008

OBJECTIVE VI:

Improve the quality and cost effectiveness of public services

5.8 There are two PSA targets directly relating to this objective. PSA9 relates to improved public services and efficiency and is divided into the two elements shown.

5.9 PSA10 on improved procurement practice is the specific remit of the **Office of Government Commerce**.

PSA 9(i) – Improved public services

PSA Target		Dec 2007[3]	Jun 2008
PSA9 PSA9 (i)	OVERALL RATING SLIPPAGE IN PARTS Improve public services by working with departments to help them meet their Public Service Agreement (PSA) targets. (Joint target with the Cabinet Office.)	Slippage	Slippage
Equivalent SR2002 PSA target	*Improve public services by working with departments to help them meet their Public Services Agreement (PSA) targets, consistently with the fiscal rules. (Joint target with the Cabinet Office).*	*Slippage*	*Slippage*

Delivery

5.10 The Government's aim is to deliver world-class public services through sustained investment and reform which ensures value for money.

5.11 As context, the Treasury's framework for planning and controlling public spending is underpinned by firm fiscal rules and provides a stable basis for departmental planning, with budgeting over three years. The framework allocates resources on the basis of firm and fixed plans providing separate allocation for capital spending, to ensure sustained increases in investment and links budgets to challenging explicitly-set commitments relating to outcomes.

5.12 The PSA framework has evolved over successive Spending Reviews to a framework characterised by a focus on outcomes and fewer centrally set measures, providing frontline public service professionals with increasing flexibility to deliver the outcomes that are important to the public. Even more progress has been made in this direction with the new framework announced in the 2007 CSR.

5.13 The Treasury and the Prime Minister's Delivery Unit (PMDU) continue to assess progress and support the delivery of all departments' PSA targets, though responsibility for delivering the targets rests with the relevant departmental Secretaries of State, as set out in the "Who's responsible" section of each PSA.

Performance

5.14 Approximately 80 per cent of SR2004 targets were given overall summary assessments on progress by departments in their 2007 Autumn Performance Reports (APRs). Of those approximately 60 per cent were reported as being met, ahead or on course. Slippage was reported for approximately 40 per cent of targets. While very good progress has been made working with departments in helping them achieve their targets, in order for the Treasury to meet its PSA target, a full 100 per cent of SR2004 PSA targets need to be met or partly met. It is an exceptionally ambitious target, so it is not surprising that there is some slippage in meeting it.

5.15 Although the SR2004 period ended in March 2008, data for monitoring this target was taken from departments' 2007 APRs. Progress can vary up to the point that a final assessment for all targets is made. A final assessment for this target will be provided once 90 per cent of all SR2004 PSA targets have been finally assessed.

[3] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf

5.16 Approximately 90 per cent of SR2002 targets were given overall summary assessments on progress by departments in their 2007 APRs. Of those, over three quarters were reported as being met, on course or partly met. Although the SR2002 period ended in March 2006, data for the full period are not yet available as some targets have a longer horizon than the SR2002 period. A final assessment for this target will be provided once ninety per cent of all SR2002 PSA targets have been finally assessed.

Quality of Data Systems

5.17 The data systems underpinning PSA targets are validated by the NAO.

5.18 A report on the data systems for 2005-08 PSA targets for six departments was published by the NAO in December 2006. The report concluded that nearly three quarters of the data systems developed by these departments provided a broadly appropriate basis for measuring progress against their PSA targets. The Treasury remains committed to ensuring that the data used in monitoring and reporting on PSA targets are relevant and reliable. The Treasury is considering how the issues raised in the report can be taken forward in the context of the new performance management framework announced in the 2007 CSR.

Risks to Delivery

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

Future Plans

5.20 The 2007 CSR announced a new performance management framework based on a stronger relationship with public sector professionals, with a streamlined set of 30 new PSAs setting the Government's priority outcomes for the 2007 CSR period. The new performance management framework consists of the following elements:

- a streamlined set of 30 new PSAs, which articulate the Government's highest priority outcomes for the 2007 CSR period and span departmental boundaries, setting out a shared vision and leading collaboration at all levels in the delivery system;
- a single Delivery Agreement for each PSA, developed in consultation with frontline workers and the public, and published to strengthen accountability and ownership across organisational boundaries;
- new Cabinet Committees announced in July 2007 which will play a key role in driving performance on cross-government PSAs by regularly monitoring progress and holding departments and programmes to account;
- a small basket of national, outcome-focused indicators to support each PSA, ensuring robust and transparent performance measurement alongside genuine rationalisation, with a significant reduction in the overall number of priority indicators attached to PSAs;
- targets used where appropriate to deliver improved performance and accountability, with nationally set targets reserved for a small subset of PSA indicators that require firm central direction, and far greater space for increased local target setting;
- a more comprehensive approach to performance monitoring, with each department publishing a set of Departmental Strategic Objectives (DSOs)[4] for the 2007 CSR period, alongside the smaller, prioritised set of PSAs. This will for the first time bring all performance monitoring into a single framework, covering both the Government's highest priorities (PSAs) and the wider span of departmental business; and
- across the whole framework, a premium on the use of high quality, timely data while freeing up the frontline by reducing low value data burdens.

[4] see page 21 for Treasury's own Departmental Strategic Objectives.

PSA 9(ii) – Delivering efficiency gains

PSA Target		Dec 2007[5]	Jun 2008
PSA9 (ii)	Improve public services by working with departments to help them meet their: efficiency targets amounting to £20 billion a year by 2007-08, consistently with the fiscal rules.	Ahead	Ahead

Delivery

5.21 As part of the 2004 Spending Review settlement, departments were set stretching but achievable efficiency targets amounting to over £20 billion a year by 2007-08, in line with the recommendations of Sir Peter Gershon's *Independent Review of Public Sector Efficiency*[6]. Departments have set out where and how they will make efficiency gains in their Efficiency Technical Notes.[7] A dedicated team, initially from the OGC and now with HM Treasury, has been working with Treasury spending teams to achieve efficiency gains by actively supporting and challenging organisations across the public sector to improve their efficiency delivery. The efficiency team reports on progress and delivery directly to the Prime Minister and Chancellor. As a result of OGC's success, building on the success achieved in the SR2004 programme, the 2007 CSR was able to announce that over the next period departments will deliver £30 billion of value for money savings.

Performance

5.22 Budget 2008 announced that to the end of December 2007 over £23 billion efficiency of savings had been reported by departments and local authorities - including £8 billion from procurement and £1 billion from back office - and over 77,600 net workforce reductions against a target of 70,600, as well as 12,600 re-allocations to the front line. In addition, departments continue to make strong progress towards the 2010 Lyons relocation target, with over 15,700 posts relocated.[8]

5.23 These figures are not yet all finalised but indicate continued strong delivery of the Government's efficiency ambitions, with headline efficiency and workforce reduction figures already in excess of the Government's own target.

5.24 The NAO published a second study into the efficiency programme in February 2007 in which it noted clear evidence of positive change with significant improvements to efficiency in public services. The report also noted the good progress made by the OGC in addressing the measurement issues raised in its first report. Since the publication of the OGC's measurement guidance in 2006, systems have improved further, embedding a strong emphasis on assuring service quality. The Government expects this progress to continue, and the Treasury's SR2004 efficiency team will do further work to tackle the remaining measurement challenges during the final period of the programme, including encouraging greater use of departmental internal auditors and through further engagement with the NAO and the Audit Commission.

Quality of Data Systems

5.25 Efficiency Technical Notes set out the measures and methodologies the departments use to assess efficiency gains. These can be found on the Treasury website.[9]

Risks to Delivery

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

[5] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[6] www.ogc.gov.uk/documents/Releasing_resources_to_frontlines.pdf
[7] see individual Departments websites for these …
[8] For further details see 2004 Spending Review: efficiency progress to December 2007, HM Treasury, March 2008
[9] www.hm-treasury.gov.uk/about/departmental_reports/efficiency_technicalnote_2006.cfm
[10] For further details see 2004 Spending Review: efficiency progress to December 2007, HM Treasury, March 2008

Future Plans

5.27 The 2007 CSR announced that building on the success achieved in SR2004, the Government has identified scope to go further and deliver £30 billion of value for money (VfM) savings in the 2007 CSR period. Not only is this a more ambitious target, but having listened to feedback from the Public Accounts Committee and Treasury Select Committee and others, Treasury has been able to tighten its measurement guidance. Therefore, all VfM savings will be reported net of up-front and ongoing costs, and all will be cash-releasing to free up resources for investing in further improving our key public services.

5..28 These are ambitious and challenging targets, but Treasury is confident that they are achievable. Departments have already publicly set out how they will achieve these savings in their VfM Delivery Agreements and will report on progress in their Annual Report and Accounts/Departmental Reports and Autumn Performance Reports.

5.29 Treasury is keen to maintain the pace of reform, with two additional strands of work which will inform the Government's framework for value for money in the post the 2007 CSR period. Opportunities for further operational savings will be examined, drawing on private sector expertise, and the Public Value Programme, announced at Budget 2008, will look at all major areas of public spending to identify where there is scope to improve value for money.

PSA 10 – Procurement improvements

PSA Target		Dec 2007[11]	Jun 2008
PSA10	Deliver a further £3 billion saving by 2007-08 in central government civil procurement through improvements in the success rate of programmes and projects and through other commercial initiatives.	Met Early	Met Early

5.29 The OGC is directly responsible for PSA10. This target was reported in the 2007APR as Met Early.

Delivery

5.30 In January 2007 the Financial Secretary to the Treasury announced the publication of the Transforming Government Procurement Report.[12] This unveiled a range of public procurement reforms to equip the UK with the capability to deliver world class public services in the face of growing challenges of global competition, changing demographics and increasing pressures on natural resources.

5.31 The range of reforms gave the OGC new powers, tasking it with delivering the transformation of government procurement and with driving up standards and procurement capability across central government. OGC has been working closely with Whitehall departments to increase the effectiveness of government's policy delivery and the value for money it obtains from the £158 billion the Government spends on the procurement of third party goods and services.

5.32 OGCbuying.solutions[13] (OGC's Executive Agency and trading fund), operations break down into three major areas of activity:

- **Framework Agreements** – setting out the terms and conditions which allow customers to buy products and services themselves under the protection of that agreement and national and EU procurement laws, saving them the trouble of evaluating the supplier, researching legal obligations and understanding small print compliance requirements;
- **Managed Services –** continuing services in which OGC takes care of either all, or a major part of, the client needs in areas such as energy or telecoms, often providing dedicated technical back-up and ongoing customer support; and
- **Memoranda of Understanding –** which offer public bodies highly-competitive prices for software and telecommunications usually provided by multi national suppliers.

[11] As reported in the HM Treasury Autumn Performance Report published December 2007 and available at www.hm-treasury.gov.uk/media/4/C/autumnperformance171207.pdf
[12] www.hm-treasury.gov.uk./documents/enterprise_and_productivity/public_services_productivity/ent_services_procurement.cfm
[13] www.ogcbuyingsolutions.gov.uk

5.33 Following the publication of the *Transforming Government Procurement*[14] report, a three year strategy has been developed which has established the outcomes OGC is looking to achieve. OGC's achievements are outlined in the following paragraphs.

5.34 OGC has published the first three **Procurement Capability Review (PCR**)[15] reports for the Department for Education and Skills (DfES) now known as the Department for Children, Schools and Families – (DCSF), the Department for Communities and Local Government (CLG), and the Department for Work and Pensions (DWP), along with an overview report on key emerging themes. The PCR reports include the findings and recommendations on departmental procurement capability and sit alongside specific Improvement Plans prepared by the respective departments which set out the actions they are going to undertake to improve procurement matters. OGC Procurement Transformation Managers are working closely with reviewed departments to enable them to deliver and measure the change/benefits required as a result of the PCR reviews.

5.35 In addition OGC has completed three further PCR reviews of Defra, Department of Transport, (DFT) and the DfID and these review reports, alongside the departmental response and a further analysis of emerging themes was published in June 2008. The PCR programme is on target to deliver 17 reviews of central civil government departments by December 2008.

5.36 OGC has worked with the Treasury to support scrutiny of the largest, most **complex projects** across government. Gateway Reviews have had a marked impact on the successful delivery of programmes and projects, and these will continue to be a major support tool for Government projects, but for complex procurement projects there is a need for further assessment mechanisms to provide Ministers and Treasury with the means to intervene where necessary. The Major Projects Review Group (MPRG) has a pool of members with appropriate commercial expertise from across government. MPRG scrutinises projects at key stages of their lifecycle. Further information about MPRG may be found on page 75.

5.37 OGC conducted a **Public Sector Procurement Expenditure Survey (PSPES)** to provide a pan-Government view of third party spend. The Government spends a total of £158 billion on procurement. OGC is working with departments and the Office of National Statistics (ONS) to improve the quality of the data in future surveys, which will lead in turn to better informed procurement decisions.

5.38 OGC delivered £570 million per annum annual savings through joint work with departments on **collaborative procurement**. Two waves of collaborative pilots have been launched which use category management techniques to better organise common areas of public sector spend and drive value for money. The first wave covers energy, fleet (vehicles and associated items), office solutions (including items like printing and stationery) and travel and represents £9.6 billion of spend. The second wave covers Information and Communications technology and professional services (including consultancy) and represents £17.5 billion of spend.

5.39 OGC helped with the development and launch of a new **pan-government framework worth up to £270 million over three years awarded for the lease of cars and car derived vans**. The new deal will save significant time and money for public sector organisations, which will avoid having to undertake their own procurement processes for leased vehicles.

5.40 A refreshed **Government Procurement Service (GPS)** skills framework,[16] was published by OGC to provide a new standard that public sector bodies can now use to create or enhance their own skills frameworks for procurement practitioners. They also launched a number of GPS schemes including the Fast Stream Procurement Placement Option, which will offer a number of places in central government commercial roles to members of the Civil Service Fast Stream; and the Government Procurement Graduate Scheme, which will attract high-calibre business graduates to a career in government procurement (there have been 13 entrants to this scheme).

5.41 OGC published a **High Performing Property Implementation Plan**. Property Champions are in place at Board level within the departments which hold 90 per cent of the government estate. Together, they will implement measures to realise £1-1.5 billion of efficiency savings by 2013.

5.42 OGC issued a summary report to the Prime Minister outlining the status of the most significant change projects within the **Major Projects Portfolio** supporting government aims**.** The MPP reporting is a new joint OGC and Cabinet

[14] www.hm-treasury.gov.uk/documents/enterprise_and_productivity/public_services_productivity/ent_services_procurement.cfm
[15] www.ogc.gov.uk/procurement_documents_procurement_capability_reviews.asp
[16] www.ogc.gov.uk/introduction_to_the_gps_gps_skills_framework.asp

Office initiative which provides a reliable and timely reporting process of the Government's major projects and is the key vehicle for Government's assessment of the health of the portfolio.

5.43 A new **Supplier Feedback Service** was launched by OGC**,** that provides a facility to invite suppliers of public sector goods and services to comment on areas of poor practice in public sector procurement. OGC in turn uses this information to help the government to become a better customer.

5.44 The **Procurement Policy and Standards Framework**, launched by OGC, provides a clear, easily accessible source of policies to which departments must adhere and supporting guidance material, to show departments how to conduct effective procurement and how to address sustainability, social issues and other policy agendas through their procurement.

Performance

5.45 This target was reported in the 2007 APR as Met Early. Departments have reported £4.2 billion of value for money gains by improving value for money in commercial activities. This has been delivered via better procurement by government departments through direct negotiation with suppliers, improved contract and property asset management, collaborative procurement and reduced process costs, as well as benefits from the OGC Gateway™ review process and the OGC Achieving Excellence initiative.

5.46 OGC's executive agency, OGCbuying.solutions, primarily maximises value for money obtained by government departments and other public bodies though the procurement and supply of common goods and services. It has exceeded its targets for the last four years, driving up savings from £163 million in 2002-03 to over £500 million in 2006-07. Total savings achieved since the agency was established have been in the region of £1.7 billion (exceeding its expected SR2004 performance of £1.58 billion).

Quality of Data Systems

5.47 Value for money gains are measured by individual departments and through other methodologies. OGC has published detailed methodological guidance to departments, entitled *Value for Money Measurement*[21] which is available on the OGC website[22]. OGC aggregates the data produced by the methodologies to produce the total.

Future Plans

5.48 Following the publication of Transforming Government Procurement and the subsequent development of a 3-year strategy, OGC will work with central departments and other central government organisations to:

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

5.49 OGC, working with others, will also make a significant contribution to the achievement of other Government goals, in particular by supporting delivery of Government policy goals and outcomes on sustainability, innovation, equality and support for Small and Medium Enterprises (SMEs).

5.50 To achieve all of this, OGC will also, centrally, be responsible for the improvement of central government capability in procurement, project and programme management (PPM) and estates, through the development of people skills and processes.

5.51 OGC will include a Centre of Expertise for Sustainable Procurement (CESP) which was part of the Government's response to the Sustainable Development Commission's latest report on how the Government is meeting its own sustainable objectives for tackling climate change. The Commission had called on departments to urgently build

[17] www.ogc.gov.uk/documents/vfmeasure_may03.pdf
[18] www.ogc.gov.uk
[19] www.ogc.gov.uk/procurement_documents_procurement_capability_reviews.asp
[20] www.ogc.gov.uk/introduction_to_the_gps_gps_skills_framework.asp
[21] www.ogc.gov.uk/documents/vfmeasure_may03.pdf
[22] www.ogc.gov.uk
[23] www.ogc.gov.uk/procurement_documents_procurement_capability_reviews.asp
[24] www.ogc.gov.uk/introduction_to_the_gps_gps_skills_framework.asp

on initiatives already taken to ensure targets can be met and to demonstrate that the Government is leading by example on sustainability. The CESP will be set up within OGC alongside the Government's Chief Sustainability Officer – a new post to be appointed to take forward a culture of change across all departments in sustainable operations and procurement.

5.52 OGCbuying.solutions will continue to work closely with OGC to support the Government's move to a more collaborative approach to procurement.

Major Projects Review Group (MPRG)

5..53 The Major Projects Review Group (MPRG) was formed in 2007 following the publication of the Transforming Government Procurement report. This set out reforms to public sector procurement to meet the public's demands for increasingly high quality services, that are good value for money, delivered in a sustainable way. The MPRG, chaired by the Second Permanent Secretary to the Treasury, consists of a panel of commercial experts from across government. Its role is to provide Treasury Ministers independent advice on the deliverability, value for money and affordability of the largest and most complex procurement projects at three key stages of their lifecycle:

- when the business case is being developed, and there is the maximum scope to influence the outcome of a project and approach to procurement;
- before the project goes out to tender, to test if the specification of the requirement is clear and unambiguous, all the procurement options have been explored, and there is a realistic prospect of success; and
- following receipt of bids, but before the award of the contract, to check that the contract decision is likely to deliver what is needed on time, within budget, and value for money.

5.54 The MPRG places Government's most significant projects under an effective, enhanced review process and aims to identify specific issues that need to be resolved before progressing further. Projects are selected for review by the MPRG on the basis of their whole life cost, complexity and whether precedence is being set. Through the expertise and experience of its members MPRG can add value to projects by challenging them and helping to strengthen against key risks. The MPRG can help to ensure concerns are addressed before full engagement with potential suppliers, potentially reducing bid costs.

5.55 The MPRG assessment process, overseen by the OGC, uses specific lines of enquiry based on recognised best practice to identify strengths and weaknesses in a project using an evidence base. The output of the assessment process is a report that guides the MPRG towards the issues that it should consider in recommending how a project should progress.

5.56 The MPRG reviewed five projects during the period July 2007 to March 2008. The projects reviewed and the decisions made by Treasury Ministers are summarised in Table 5.1. In addition MPRG has provided added value in terms of challenge and support to the early stages of the Crossrail project.

Table 5.1: Projects reviewed by MPRG

Department	Project	Stage	Decision
DWP	Enabling Retirement Savings Programme	Before engaging the market	Proceed; subject to conditions
BERR	Carbon Capture and Storage	Before engaging the market	Proceed; subject to conditions
BERR	Nuclear Decommissioning Authority[25] – Parent Body Organisation Competition Programme	Before contract award	Proceed; subject to conditions
MOD	Defence Training Rationalisation[26]	Before contract award	Proceed; subject to conditions
DH	Pandemic Influenza Preparedness Programme	Business Case Stage	Proceed; subject to conditions

5.57 The MPRG has made recommendations that are expected to improve the performance of these major projects. These include recommendations to improve governance arrangements, strengthen commercial expertise, develop more robust commercial strategies and revise unrealistic timetables. Project teams have responded and taken action to implement these recommendations.

5.58 Departments that have been through the process have welcomed the additional challenge and support MPRG has provided, but it is still in an early developmental stage and MPRG's working methods are still evolving. For example in some cases MPRG assessments are now carried out alongside rather than in addition to the relevant OGC Gateway Reviews where they are due to happen at the same time and the pipeline of future projects has been extended to give project teams more advance notice.

5.59 As MPRG develops further, the Treasury will be looking at how best to spread lessons learnt from MPRG to projects across Government to improve commercial capability and how projects that aren't reviewed by MPRG can be scrutinised more effectively.

[25] http://www.nda.gov.uk/
[26] http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/TrainingandExercises/DTR/

OBJECTIVE VII:

Achieve world-class standards of financial management in government

5.60 There is no PSA target for this Objective.

5.61 The main themes of the financial management improvement programme highlighted in the memorandum submitted to the Treasury Select Committee in April 2006 were:

- corporate structures and governance in departments;
- people skills – for both finance and non-finance professionals; and
- data processes and management information.

5.62 Work this year has continued on all of these main themes and, in addition, the Treasury has highlighted the need for departments to focus on performance management alongside the control of expenditure. In particular, governance and performance management drivers were reinforced by the 2007 CSR, with the announcement of a new performance management framework and ambitious value-for-money programmes.

5.63 The Treasury has also sought a more active engagement with the wider public sector to share best practice in performance and financial management.

Delivery

5.64 On governance and performance management, the Treasury works toward continued improvement of standards of good practice for corporate governance and resource management in central government departments. In addition, where necessary the Treasury reviews and takes action to improve key aspects of performance, financial and risk management processes across Whitehall.

5.65 On people skills the Treasury provides training and development programmes to assist budget holders in improving planning and decision-making, together with ongoing efforts to strengthen financial professional skills throughout government.

5.66 On data processes and management information Treasury uses the single integrated COINS system to enhance central review of financial data from departments. In addition, ongoing efforts are made to improve the quality and timeliness of financial reporting, including developing accounts for the whole UK public sector.

Performance

5.67 On governance and performance management:

- in June 2007, the Treasury hosted the first joint meeting of Permanent Secretaries and Finance Directors to share best practice on meeting performance management challenges. The World Class Performance Symposium was jointly hosted by the Treasury and the Chartered Institute of Public Finance and Accountancy (CIPFA) at the Queen Elizabeth II Conference Centre in London in February 2008, bringing together practitioners of performance and financial management from central government and the wider public sector.; and
- following the Financial Management reviews of departments conducted by the Treasury between 2004 and 2007, Finance Directors have now agreed to take forward self-assessments of performance and financial management capability within their organisations, using a model designed by the CIPFA.[27] This process was successfully tested this year at the Department for Children Schools and Families (DCSF).

5.68 During 2007-08 the Treasury has published a number of documents to support improved use of public funds, including:

- a new ethical guide *Managing Public Money*[28] to replace *Government Accounting* with effect from 1 October 2007;

[27] www.cipfa.org.uk/

[28] http://www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_managingpublicmoney_index.cfm

- the *Fraud Report 2006-07*[29] (October 2007) which highlighted failures of control mechanisms in departments, thus providing learning material to improve governance behaviour;
- *Managing Performance in the Public Sector – an external perspective*[30] (February 2008), representing the recommendations of the Performance Management, Corporate Structures, and Best Practice advisory panels; and
- to further improve departmental governance, a review of Government Internal Audit Standards against the current International Standards on Internal Auditing was completed, and a steering board established to consider options for adoption of International standards.

5.69 On people skills:

- all departments, except MoD, HMRC and CPS, now have professionally qualified Finance Directors (91 per cent);
- the Fast Stream finance option 2007 continued to build on the success of 2006, with over 40 expressions of interest from 12 departments being taken forward; and the accelerated scheme enabling senior managers, with significant financial management experience, to obtain a professional finance qualification with either CIPFA or the Chartered Institute of Management Accountants (CIMA) continues to be well supported. Over 90 senior managers are currently signed up and a fourth cohort was launched in January 2008. In addition, a "shared service" cross-government recruitment exercise for trainee finance professionals was piloted under the Government Finance Profession banner. The exercise resulted in 943 applications for 48 places;
- the Government Hundred Group (GHG), comprising top finance professionals from across the wider public sector, held its inaugural meeting in June 2008. The Group provides a senior professional network and community within the public sector for the purpose of mutual support and the exchange of best practice. The first two-day GHG conference was held in January 2008. In addition, a Government Finance Profession (GFP) conference and awards ceremony was held, with 600 practitioners present to mark 25 years of the GFP, and a brief history of the service published in November 2007; and
- 'Finance Skills for All' (Lovelearning[34]) was released in December 2007 and formally launched in February 2008. The upgraded version contains enhanced management information reporting. This product was showcased as part of the National School for Government virtual campus. In addition, a second publication produced by the Financial Management advisory panels in February 2008 was Embedding Financial Management Skills in Government[35], encouraging the development of financial skills for non-finance managers.

5.70 On data processes and management information:

- the Treasury has established a "clear line of sight" project to simplify its financial reporting to Parliament by better aligning the budgeting, Estimates and accounting frameworks and streamlining the number and timing of government financial publications. The project was announced by the Prime Minister in July 2007 in the Green Paper *The Governance of Britain*[36];
- the Treasury has continued to support and encourage departments in improving the quality and timeliness of their resource accounts. 47 of 51 departmental resource accounts for 2006-07 were laid before Parliament prior to the summer recess (compared with 42 in 2005-06 and 25 in 2004-05), demonstrating further improvement in departmental systems and finance skills. In 2005-06 four departments financial statements were qualified other than for excess votes[37]. In 2006-07 only two departments financial statements were qualified other than for excess votes[38] ;
- design of a new consolidated statement was completed showing how the UK Central Government Sector has used European Union (EU) funding, with details of spending on EU supported projects and net EU funding analysed by EU expenditure programme and by territory (i.e. England, Wales, Scotland and Northern Ireland). The statement will strengthen audit and parliamentary scrutiny of the UK's use of EU funds; and

[29] ISBN 978 -1-84532-363-9
[30] Available at http://thegfp.treasury.gov.uk
[31] http://www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_managingpublicmoney_index.cfm
[32] ISBN 978 -1-84532-363-9
[33] Available at http://thegfp.treasury.gov.uk
[34] www.lovelearning.nationalschool.gov.uk
[35] Available at http://thegfp.treasury.gov.uk
[36] Cm 7170 www.official-documents.gov.uk/document/cm71/7170/7170.pdf
[37] www.hm-treasury.gov.uk/about/departmental_reports/annual_report07.cfm
[38] Department for Work and Pensions (fraud and error in benefit expenditure and uncertainties over the completeness of customer overpayment debtors) and the Armed Forces Pension Scheme (insufficient evidence on provisions liability figure for the Armed Forces Compensation Scheme.

- the timetable for the 2006-07 dry run of the Whole of Government Accounts (WGA) was advanced by six weeks compared to 2005-06. In addition, advances have been made in the dry run process that will allow significant improvements to the robustness of WGA. Further progress has been made in embedding the COINS public finance database by adding additional functionality for management reporting and monitoring expenditure. 12 COINS Business Process Reviews were completed covering issues such as systems administration practices and communications with users. Findings have either been implemented or are in the process of being implemented.

TABLE 5.2: Resource Accounts

Financial Year	Qualified Accounts (a)	Type of Qualification (b)				
		Disclaimed opinion/nil opinion	Adverse opinion	Disagreement / limitation of scope	Regularity	Excess vote
2001-02	16			6	3	10
2002-03	8	1		2	1	6
2003-04	4			2	2	2
2004-05	2	1		2	1	1
2005-06	6			4	1	2
2006-07	4			2	1	2

Notes:

(a) The number of accounts qualified does not necessarily equal the total of all types of qualification because some accounts were qualified for more than one reason.

(b) 'Disclaimed' or 'adverse' opinions imply major disagreement between the auditor and the body over the content of the accounts or an inability to substantiate significant areas of the accounts. 'Disagreement' over an item in the accounts, or stating that the auditor was unable to form a view on an item ('limitation of scope'), may imply that a serious issue remains unresolved, but generally implies the issues are not pervasive throughout the accounts. The auditor will also issue a qualified report if the expenditure was in excess of Estimates (an 'excess vote') or not for the purposes intended (a 'regularity qualification').

Risks to delivery

5.71 While further progress has been made over the last year, the production of WGA continues to face challenges in respect of data quality and possible audit qualification. Work is continuing with data providers to resolve data quality issues and through constructive engagement with the National Audit Office and others. Further development of WGA processes is planned.

Future plans

5.72 On Governance and performance management:

- reinforcing with departments the implementation of the new performance management framework so as to encourage enhanced reporting of integrated financial and operational performance data to Boards to enable them to compare the cost of their principal outputs and to improve the evidence on which they base resource allocation decisions;
- assessing how well departments have developed clearly defined roles for their Non-Executive Directors on their Boards, and considering how the Corporate Governance Code might be refreshed to enable Non-Executive Directors to challenge and support department activity more effectively; and
- concluding the development of revised Government Internal Audit Standards by September 2008, and producing a strategic view of future internal audit needs and existing capability by March 2009.

5.73 On people skills:

- working with the Cabinet Office to encourage departments to use the *"Finance Skills for All"* training to strengthen performance and finance skills in government; and
- investigating with the Cabinet Office the finance skills needs of the "top 200" senior civil servants and looking to supply specific training/mentoring.

5.74 On finance professionals:

- reinforcing the Government policy that all departments should have a qualified Finance Director at Board level;
- supporting the community of Finance Professionals in Government to deepen professional capacity and capability in departments and engaging with the wider public sector to share best practice in the Financial Management Agenda and create a more broadly based community; and engaging effectively with external parties to promote the Government Finance Profession (GFP) brand within the relevant market places; and
- working with departments and the Civil Service Commissioners to improve the process of recruiting Board level Finance Directors into central government departments.

5.75 On data processes and management information, the key priority for the year ahead will be to develop, through the "clear line of sight" project, proposals for a single coherent financial regime by better aligning the existing budgeting, Estimates and accounting frameworks. The aim is to enhance accountability, incentivise good value for money consistent with the Government's fiscal framework, and support delivery of excellent public services. The project is being taken forward in full consultation with a wide range of stakeholders, and is an integral part of Treasury's DSO to professionalise and modernise the finance functions across central government.

5.76 Other priorities for this year include finalisation of the new Government Financial Reporting Manual (FreM) for 2009-10 based on EU-adopted International Financial Reporting Standards, adapted as necessary for the public sector; which will also be used by departments in producing IFRS-based shadow resource accounts for 2008-09[41] reviewing sustainability reporting in annual reports and accounts, and making recommendations for improvements; and further enhancing Whole of Government Accounts processes and converging local and central government accounting practice. The Treasury will also be pursuing further development of the COINS system in order to refresh the governance arrangements by replacing the project board with a service management board; introducing clear standards and metrics for COINS data quality; and implementing software upgrades so as to improve system performance and functionality.

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39 www.lovelearning.nationalschool.gov.uk
40 Available at http://thegfp.treasury.gov.uk
41 www.financial-reporting.gov.uk
42 www.financial-reporting.gov.uk/
43 Cm 7170 www.official-documents.gov.uk/document/cm71/7170/7170.pdf
44 www.hm-treasury.gov.uk/about/departmental_reports/annual_report07.cfm
45 Department for Work and Pensions (fraud and error in benefit expenditure and uncertainties over the completeness of customer overpayment debtors) and the Armed Forces Pension Scheme (insufficient evidence on provisions liability figure for the Armed Forces Compensation Scheme.
46 www.financial-reporting.gov.uk/
47 www.financial-reporting.gov.uk/

6

Maintaining an efficient and effective economics and finance ministry

Includes:

- governance
- corporate services

INTRODUCTION

6.1 In order for the Treasury Group to deliver on its commitments made under SR2004, it needs to have a corporate strategy to support the business. It must have strong governance and effective leadership to enable the right decisions to be taken at the right times. It needs to manage its workforce fairly and efficiently, enabling the development of skills and expertise that help the Treasury Group to deliver, and rewarding staff appropriately for their contribution to that delivery. It needs to provide a sustainable working environment, and be conscious of its responsibilities to the management of its buildings and associated resources. In order for the business to be able to set the wider policy agenda necessary to meet its SR2004 objectives, the staff of the Treasury Group need to reflect the diversity of the society it serves, and be equipped to communicate effectively with stakeholders both within and outside government. This chapter sets out how the Treasury Group has organised itself to meet these needs during 2007-08, and includes:

- a description of the Treasury Group's current corporate governance arrangements, and how these comply with the Corporate Governance Code of Good Practice;[1]
- summary reporting on the Arms Length Bodies for which the Treasury Group has been responsible over the period;
- an update on developments on the Group Shared Services programme, which is continuing to improve core corporate services across the Treasury Group;
- reporting on Treasury Group workforce issues, staff numbers and details of the Group's policies on recruitment and diversity;
- narrative on the Treasury Group's commitments to sustainable development, including reporting against a number of key metrics; and
- future plans for the corporate agenda for the Treasury Group over the 2007 CSR.

[1] http://www.hm-treasury.gov.uk/media/4/8/daocorpgovernancecode.pdf

CORPORATE GOVERNANCE

6.2 Corporate governance is the way in which organisations are directed and controlled. It defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation, determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance.[2] The Treasury Group has a corporate governance structure that seeks to support the department in delivering its objectives. The Treasury Board manages the Treasury in a manner which enables Directorates and their individual management boards to run the day-to-day business of the Treasury, with the Board providing strategic input, direction and leadership, as well as oversight of risk. The Treasury Board, its Committees, their membership and their remits are described in this chapter.

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

Treasury Board

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

6.5 Membership of the Board during 2007-08 was as follows:

Table 6.1 Board Membership (at March 2008)

Executive Members	
Nicholas Macpherson	Permanent Secretary
John Kingman	Second Permanent Secretary, and Managing Director, Pubic Services and Growth
Mark Neale	Managing Director, Budget Tax and Welfare
Stephen Pickford	Managing Director, International Finance
Dave Ramsden	Managing Director, Macroeconomic and Fiscal Policy
Louise Tulett	Group Director of Finance, Procurement and Operations
Mary Keegan	Head of Government Finance Profession[3]
Nigel Smith	Chief Executive of the Office of Government Commerce
Tom Scholar	Managing Director, International Finance
Non-Executive Members	
Sir Peter Gershon	Sir Peter Gershon is Chairman of Premier Farnell plc and Symbion Limited[4].
Stella Manzie	Stella Manzie was Chief Executive of Coventry City Council, and is now Director General, Finance & Corporate Services, Scottish Executive.
Sir William Sargent	Sir William Sargent is joint Chief Executive of Framestore CFC and since September 2005 has been the chair of the Better Regulation Executive[5].

[2] www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_governance_corporate.cfm
[3] Mary Keegan attended the Board in her capacity as Managing Director, Government Financial Management and Finance Director until June 2007.
[4] Since Sir Peter Gershon stood down as Chief Executive of the Office of Government Commerce in March 2004 he has had no executive responsibilities in central government.
[5] Sir William Sargeant previously served as an executive member of the Cabinet Office Board.

6.6 During 2007-08 the Executive Board membership changed as some members stepped down from the Board, as detailed in Table 6.2:

Table 6.2 Former Executive Board Members (during 2007-08)	
Jon Cunliffe (until June 2007)	Managing Director, International and Finance
Michael Ellam (until June 2007)	Director of Policy and Planning
Peter Fanning (until Sept 2007)	Acting Chief Executive of the Office of Government Commerce
Sam Beckett (until Jan 2008)	Director of Policy and Planning

6.7 The Non-Executive Board membership also changed during 2007-08, as detailed in Table 6.3:

Table 6.3 Former Non-Executive Board Members (during 2007-08)	
Sir David Varney (until 31 July 2007)	Sir David Varney was Chairman of Her Majesty's Revenue and Customs until the end of August 2006[6]

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

- Mary Keegan retired from her post as Head of the Government Finance Profession and stepped down as an executive member of the Treasury Board on 31 March 2008;
- Sir Peter Gershon stepped down as a non-executive member of the Treasury Board on 31 March 2008; and
- Stella Manzie stepped down as a non-executive member of the Treasury Board on 27 June 2008.

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

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

Board Committees

6.11 The Board is supported by the **Group Executive Committee** (GEC), which provides a forum for decision-making on urgent Group wide issues required between Board meetings and acted as a formal programme board for the department's 2007 CSR programme. The GEC meets on an ad-hoc basis.

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

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

6.14 The **Group Finance Committee's** purpose is to ensure good financial management in Treasury Group including monitoring monthly financial information; and it advises the Board on major financial decisions including

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

resource allocation. The Group Finance Committee was chaired by Mary Keegan from April until June 2007 and then by John Kingman, second Permanent Secretary and Managing Director of Public Services and Growth. It met 11 times in 2007-08.

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

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

6.16 The GRAC has the opportunity for pre-committee discussion with the NAO and the Group Head of Internal Audit without those additional attendees listed above. The GRAC met four times in 2007-08.

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

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

6.18 Meetings of the EFAC were attended as relevant by the appropriate Accounting Officers. The EFAC met four times in 2007-08.

6..19 The Group Head of Treasury Internal Audit is the nominated officer for HM Treasury's whistle blowing policy and he has direct access to the Chairs of both the Audit Committees. He was nominated by the Permanent Secretary under HM Treasury's fraud policy.

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

Other Groups

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

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

6.23 **OGC's Board** met 10 times in 2007-08. From April to September 2007, the Board was chaired by the acting Chief Executive Peter Fanning and, since his appointment in September 2007, it has been chaired by the new Chief Executive, Nigel Smith. During the year, 5 Executive Directors, 3 Non-Executive Directors and the Chief Executive of OGCbuying.solutions have supported OGC's Chief executive on the Board. William Jordan, the then Deputy Chief Executive, chaired OGC's Operations Committee. The OGC Operations Committee is a sub-committee of the OGC Board with responsibility for tracking and managing OGC's performance against its targets and milestones. It met 8 times during 2007-08.

6.24 **DMO's Managing Board** is responsible for strategic, operational and management issues. It is chaired by the Chief Executive of the DMO and comprises four Executive members (including the Chief Executive) and three Non-Executive Directors, including a Treasury representative. It met 8 times in 2007-08. Further information is available in the DMO and DMA Report and Accounts 2007-08.

ARMS-LENGTH BODIES

The Bank of England

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

6.26 The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998). [7] Part 1 of the Act sets out the constitution, regulation and financial arrangements for the Bank, including the requirements for the Bank to report annually to the Chancellor on its activities and its accounts. The Act provides for a Court of Directors and a Committee of Non-executive Directors ('NedCo') within Court. Court is responsible for managing the Bank's affairs, other than in the formulation of monetary policy. This includes determining the Bank's objectives and strategy, and aiming to ensure the most efficient use of the Bank's resources. NedCo has responsibility for reviewing the Bank's performance in relation to its objectives and strategy, monitoring the extent to which the Bank's financial management objectives are met, and reviewing the Bank's internal controls. The Court consists of the Governor, two Deputy Governors and 16 Non-executive Directors. All are appointed by the Crown on a recommendation of the Prime Minister, as advised by the Chancellor. The Governor and deputy Governors are appointed for a period of five years and the Directors for three years, the chairman is designated by the Chancellor. The Chancellor appoints the chairman of NedCo who is also the Deputy Chairman of the Court.

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

6.28 The statutory provisions are supplemented at an operational level with several written memoranda of understanding and service level agreements setting out definitions of how the relationship functions across different areas, and the duties and responsibilities of key players. More information on the Treasury's relationship with the Bank of England as part of the Tripartite arrangements between the Treasury, the Bank of England and the Financial Services Authority can be found in Chapter 2 of this report. More details of the work of the Bank of England can be found on its website[8].

Northern Rock

6.29 Northern Rock was taken into temporary public ownership on 22 February 2008. A Framework Document[9] agreed between the Company and its shareholder, HM Treasury, sets out the shareholder relationship between the Company and the Treasury. The ongoing relationship between the Company and the Treasury as shareholder, the Treasury and the Bank of England as creditor and the Financial Services Authority as regulator will be underpinned by the Tripartite Authorities' stated objectives: to protect taxpayers, to promote financial stability, and to protect consumers. The Northern Rock Board will implement a business plan[10] which takes into account these objectives and is consistent with the aim of temporary public ownership.

6.30 Under the Framework Document the Treasury as shareholder:

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

[7] www.bankofengland.co.uk/about/legislation/1998act.pdf
[8] www.bankofengland.co.uk
[9] http://www.hm-treasury.gov.uk/media/3/3/nr_shareholder_framework_310308.pdf
[10] http://companyinfo.northernrock.co.uk/downloads/Summary_of_Proposed_Business_Plan.pdf

- gives the Northern Rock Board the freedom to take the actions necessary to deliver the business plan;
- monitors the Company's performance to satisfy itself that the business plan is on track; and
- must give its consent for certain significant actions.

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

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

6.32 More information on the Treasury's relationship with Northern Rock will be made available in the Treasury Group Resource Accounts 2007-08.

Royal Mint

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

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

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

6.36 The customer relationship is governed by a Service Level Agreement that sets out the arrangements for the supply of UK coinage. More information on the Royal Mint can be found on its website.[11]

OGCbuying.solutions

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

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

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

6.40 The management of OGCb.s risks is the responsibility of its Accounting Officer. The Treasury's available input channels are via the OGC Chief Executive's membership of the Treasury's Board, the Treasury Permanent Secretary's chairmanship of the OGC Commercial Delivery Board, meetings between the OGC Chief Executive and the Treasury Permanent Secretary, and close working relations between OGC and the Treasury's Corporate & Private Finance team. More information on OGCb.s can be found on its website[12].

[11] www.royalmint.com
[12] www.online.ogcbuyingsolutions.gov.uk

Partnerships UK

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

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

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

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

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

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

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

6.48 The Treasury also coordinates the Advisory Council, which is currently chaired by HM Treasury's Permanent Secretary, and consists of representatives from Government Departments, including the Treasury the Devolved Administrations, local authorities and other public bodies. The role of the Advisory Council is to advise the Treasury on whether PUK is achieving its public sector mission. The Advisory Council meets twice a year and produces a report on PUK's activities which is published by the Treasury and available on the PUK website.[13]

Pool Re and Pool Re (Nuclear)

6.49 Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. More information on Pool Re can be found on its website.[14]

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

Statistics Commission

6.51 The Statistics Commission, previously the Treasury's only non-departmental public body, was wound-up on 31 March 2008 and replaced by the Statistics Board, responsibility for which resides with the Cabinet Office. From 1st April 2008, the UK Statistics Authority will be responsible to Parliament for building trust in UK statistics; for further information please see the website.[15]

[13] www.partnershipsuk.org.uk
[14] www.poolre.co.uk
[15] www.statisticsauthority.gov.uk

CORPORATE SERVICES

6.52 The section above details how the Treasury Group ensures that it has a Board and Committees that lead the Treasury to deliver its objectives now and in the future. Equally important is having the appropriate supporting and enabling systems in place to empowers staff to deliver on those objectives. This section describes the corporate services of the Treasury, how it supports the business, and also discusses cross departmental issues around recruitment and diversity and corporate social responsibility.

Managing core corporate services

6.53 The Group Shared Services (GSS) programme has continued to be embedded into the Treasury Group over 2007-08. GSS delivers economies of scale through integrating and sharing core corporate services across HM Treasury Group members, helping to drive through both a professional service to support the department's corporate agenda, and meet the Treasury's 2007 CSR settlement. Specifically, this has meant that the: Information Services and Facilities; Human Resources; Internal Audit; and Finance and Procurement teams within the Office of Government Commerce (OGC) and core Treasury have been merged.

6.54 As reported in the 2007 Annual Report and Accounts, in order to take forward the transformations of these areas, Group Heads of each of area have been appointed. Each of these Group Heads is a Senior Responsible Officer (SRO) driving change and improvement in their areas, ensuring that rationalisations and standardisations happen in the most effective way to promote effective working of the Group. Since May 2007 the GSS programme has been governed by a Programme Implementation Board (PIB), chaired by the Group Director of Finance, Procurement and Operations, and with a membership including each Group Head and representatives from the customer base.

6.55 Key achievements over the last year include:

- rationalisation of the Treasury Group estate has made significant improvements in efficiency, through: the co-location of all OGC London and Treasury staff; and the closure of the Edinburgh OGC office, and with a sale value of £2.35m in deteriorating market conditions;
- progress on rationalization of staff numbers and process improvements; and
- improved travel and subsistence processes have been introduced to deliver efficiencies across the department.

6.56 The key development in the coming year will be the transformation of human resources team and the introduction of a single Human Resource Information System (HRIS) which will, provide self service access to customers, better management information and effective workforce planning to assist the department to deliver on improved capacity, capability and diversity agendas. During 2008-09, GSS will also be considering where there is scope for further rationalisation, improved efficiencies and economies of scale in other corporate services.

Managing the workforce

6.57 The Treasury Group is relatively small, but with a broad strategic remit. The Treasury's staff are therefore its most important asset, and ensuring that the Group is staffed by professional and skilled people with the right skills and experience, who reflect the diversity of the society they serve is key to enriching the workforce to enable the department to deliver across the breadth of its responsibilities.

Staff profile

6.58 Overall, at 1 April 2008, the Treasury Group had 1,451 Full Time Equivalent (FTE) staff. Table 6.4 shows the staff numbers for the Treasury Group since 1 April 2002, and plans for up to 1 April 2011. As a result of Machinery of Government changes, this differs from the table published in the 2007 Annual Report and Accounts due to the additional staffing of 33 FTE in core Treasury from the transfer of the Prime Ministers Delivery Unit (PMDU).

6.59 The core Treasury had a target to deliver a reduction in FTE headcount of 150 between 1 April 2004 and 1 April 2008. As shown in Table 6.4 and in the reporting on the Treasury Group efficiency programme in Annex A of this report, the core Treasury achieved this target; headcount in the Treasury Group has decreased by 316 and by 235 in core Treasury over the period.

Table 6.4 [16]- Treasury Group Staff Numbers

Full time equivalents (FTEs)	31 March 2002	31 March 2003	31 March 2004	31 March 2005	31 March 2006	31 March 2007	31 March 2008	31 March 2009 (Plans)	31 March 2010 (Plans)	31 March 2011 (Plans)
Core Treasury										
CS Permanent	1,241	1,261	1,274	1,173	1,171	1,155	1,066	1,096	1,046	1,006
CS Casual	70	60	64	62	55	52	70	50	50	40
Machinery of Government Changes										
PMDU (June 2007)	33	33	33	33	33	33				
Total Gross Control	**1,344**	**1,354**	**1,371**	**1,268**	**1,259**	**1,240**	**1,136**	**1,146**	**1,096**	**1,046**
DMO										
CS Permanent	76	79	84	76	71	75	69	77	73	72
CS Casual	1	2	2	1	1	1	4	4	4	3
Total Gross Control	**77**	**81**	**86**	**77**	**72**	**76**	**73**	**81**	**77**	**75**
OGC										
CS Permanent	330	300	290	300	280	259	195	250	265	265
CS Casual	10	10	20	70	70	36	47	20	-	-
Total Gross Control	**340**	**310**	**310**	**370**	**350**	**295**	**242**	**270**	**265**	**265**
Treasury Group										
CS Permanent	1,680	1,673	1,681	1,582	1,555	1,522	1,330	1,423	1,384	1,343
CS Casual	81	72	86	133	126	89	121	74	54	43
Total Gross Control	**1,761**	**1,745**	**1,767**	**1,715**	**1,681**	**1,611**	**1,451**	**1,497**	**1,438**	**1,386**
OGCbuying. solutions										
CS Permanent	190	230	243	260	282	285	268	305	330	350
CS Casual	10	10	0	0	0	4	0	0	0	0
Total Gross Control	**200**	**240**	**243**	**260**	**282**	**289**	**268**	**305**	**330**	**350**

Recruitment

6.60 The Treasury Group's recruitment procedures are in accordance with the Civil Service Commissioners' Recruitment Code, which is based on the principles of fair and open competition and selection on merit. The Treasury seeks to recruit and retain highly skilled people, and to develop them as appropriate to become high performing members of staff. During 2007-08, core Treasury's recruitment by category is shown in Table 6.5[17].

6.61 The work traditionally done by Range As (paper handling, copy and audio typing) has been disappearing for a number of years. Consequently, the number of Range A posts has gradually declined so that there were fewer than ten Range As left. Therefore, Ranges A and B were merged with effect from 1 August 2007.

[16] The table differs from that published in 2007 as numbers are now reported as at 31st March rather than 1st April. This change has been made to provide for consistency in reporting between core Treasury, OGC, OGC buying solutions and DMO and to comply with ONS reporting requirements.
[17] Equivalent statistics for the other members of the Treasury Group can be found in their respective Annual Reports.

Table 6.5: HM Treasury recruitment by grade and category in 2007-08

Range	Permanent Appointment[18] (inc Permanent Transfers)	Fixed Term Appointment	Re-employment of former Civil Servants	Secondments in	Casual appointments	Total
B	37	16	0	0	18	71
C	22	9	0	0	8	39
D	36	9	0	12	10	67
E	12	8	0	11	2	33
SCS	4	2	1	2	1	10
Total	**111**	**44**	**1**	**25**	**39**	**220**

Diversity

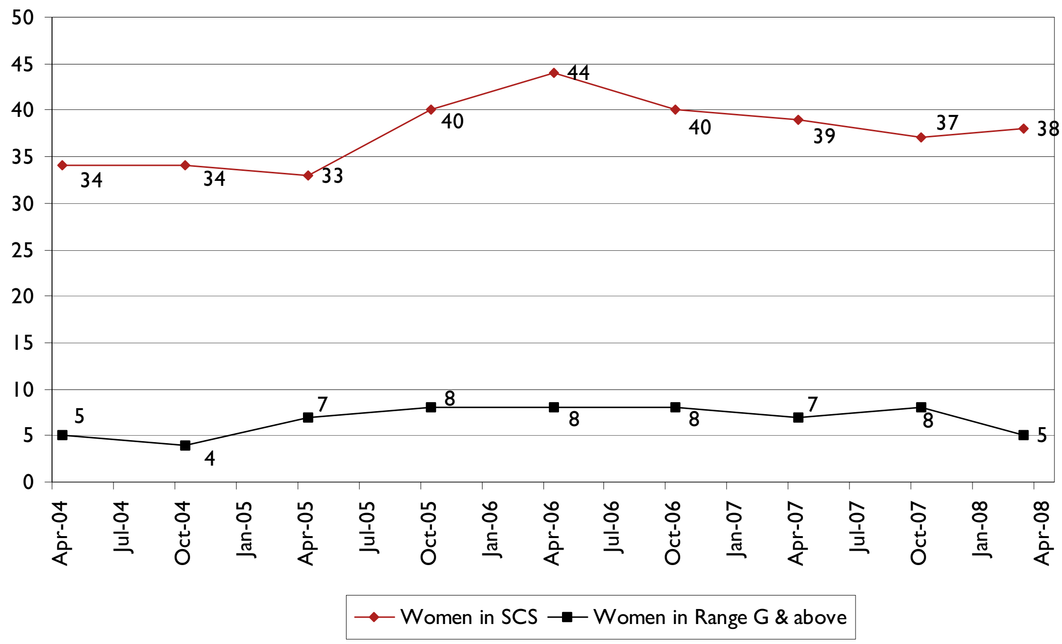
6.62 The Treasury seeks actively to promote a departmental culture that values difference and recognises that diversity enriches the economy - and our society - and is an essential ingredient of change and progress. As an employer, the Treasury seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented work force that is **representative** of the society it serves. The Treasury seeks to foster a culture of trust and openness in which people support and develop each other, and feel valued for the contribution they make. The department monitors a wide range of other data on staff in post to help address areas of under-representation. This data is published on the external website twice a year. The Treasury's race, disability and equality schemes are also available on the website.[19]

6.63 The department has a Board level **Diversity Champion** to ensure the department's aims on diversity are understood at every level and are acted upon and delivered. Along with other government departments, the Treasury has targets to increase the proportion of women, ethnic minorities and people with disabilities in the Senior Civil Service (SCS) to 37 per cent, 4 per cent and 3.2 per cent respectively by April 2008. In addition, there are targets for the proportion of women in top management posts (Range G and above) to increase to 30 per cent and targets for under represented groups in the entrance grades to the SCS (i.e. Range E and Range D). The target for the representation of women in the entrance grades is 40 per cent.

6.64 The Treasury's SCS is relatively small (109 people as at 31 March 2008) and when one or two people from underrepresented groups move or leave the department that can have a disproportionate impact (in percentage terms) upon progress towards meeting the diversity targets. Since putting targets in place and participating in the *Cabinet Office's Ten Point Plan on Diversity*,[20] the department has made some progress on increasing the numbers of **women** in the SCS (the representation of women in the SCS at 31 March 2008 is 34.9 per cent and 20 per cent at Range G and above). Figure 6.6 shows the actual numbers of women in the SCS at Range G and above.

[18] The number of permanent appointments is higher than previous years following the transfer of Corporate Services staff from OGC and the Machinery of Government transfer of the Prime Minister's Delivery Unit from Cabinet Office.
[19] www.hm-treasury.gov.uk./about/about_equality.cfm
[20] www.civilservice.gov.uk/iam/diversity/10point/index.asp

Figure 6.6: Number of women staff in SCS and at Range G and above.



6.65 With regard to gender balance in the grades below SCS, at Range E 36.0 per cent are female and at Range D 41.6 per cent of staff are female (Table 6.7). In the Treasury's 2007 staff survey, women's perceptions of working in the department were not significantly different to men's perceptions. A network set up within the Treasury Women in the Treasury (WITT) has objectives that enable others to learn from the experiences of successful women and facilitate better access to female role models within Treasury.

6.66 Opportunities exist for staff, both men and women, to take advantage of alternative working patterns and home working. The support the department has provided for staff with dependant care responsibilities is well established and includes childcare vouchers and a holiday play scheme. These benefits have been welcomed at all levels in the department and take up, from both men and women, has been good. In 2007 a Parents' Network was established in the Treasury. The Treasury will continue to build on, and embed, this work which is essential in addressing the challenges on the department's diversity agenda, over the coming year, particularly the issues on work-life balance, the culture of the department and reductions in staff numbers.

6.67 Representation of **ethnic minority** staff in the SCS is 2.4 per cent (Table 6.7). The target is 4 per cent. Below the SCS steady progress has been made in increasing the pipeline of talent so that 6.4 per cent of Range Es and 15.8 per cent of Range Ds are from ethnic minorities. The target for the representation of ethnic minority staff in the feeder grades is 14 per cent. The Treasury has worked with its Ethnic Minority Advisory Group throughout 2007 to raise awareness of different cultural backgrounds and promote cohesion and understanding. The Treasury is also a member of Race for Opportunity to ensure it adopts a best practice approach to promoting race equality.

6.68 Just over 2.4 per cent of SCS staff have recorded themselves as having a **disability** (Table 6.7). The target is 3.2 per cent. Progress on the representation of people with disabilities in the feeder grades is encouraging (the target is 5 per cent) and as at March 2008 the representation at Range E is 4.4 per cent and Range D 4.6 per cent. The department has continued to work closely with its employee Disability Advisory Group to develop a strategy aimed at increasing the number of disabled staff recruited to the department and reducing the barriers for disabled staff in the workplace.

Table 6.7 Treasury staff diversity at 31 March 2008

Range	Women (per cent)	People from a minority ethnic background (per cent)	People with disabilities (per cent)
B	73.1	29.1	7.5
C	55.3	26.7	8.7
D	41.6	15.8	4.6
E	36.0	6.4	4.4
F	39.3	2.4	2.4
Director (Range G) and above	20.0	4.0	0.0
Overall	**45.0**	**14.8**	**5.2**

6.69 The Treasury also measures staff attitudes of different groups through its annual staff survey and benchmarks its approach to diversity with external best practice. The Treasury took part in the second of the Employers' Forum on Disability benchmarking exercises in 2007 and the third Stonewall benchmarking exercise. In addition the Treasury has also put in place an important initiative in 2007-08 linking the department to nine universities with diverse student populations. The objective of this work is to encourage applications, for employment opportunities, from underrepresented groups, the Treasury has a keen interest in the monitoring of this initiative.

Increasing professionalism and skills

6.70 The Treasury also recognises, in common with the rest of Government, the importance of increasing the professionalism and skills of its workforce. In May 2006 the Treasury launched its **Workforce and Skills Strategy**. The recommendations made in that original strategy have now been fully implemented and include:

- a Career Deal for staff which sets out the Treasury's commitment to providing learning and development opportunities for all, and supporting staff in their career development and progression; and
- new HR policies and practices to enable more effective people management - including defining the attributes of a good Treasury manager, and ensuring there is the appropriate training and challenge so that all the Treasury's managers can continue to develop their skills.

6.71 The Treasury was successfully re-accredited as an **Investor in People** in 2007. The Treasury offers an extensive internal programme of courses, as well as links with external providers such as the National School of Government, to ensure that there are courses available to meet the needs of staff. Secondments and interchange opportunities also offer the potential to gain broader experience and learn from external best practice. The Treasury also encourages mentoring, on-the-job coaching, shadowing and short term placements.

6.72 In addition, the Treasury runs programmes to **develop its SCS** as leaders, and to ensure those feeder grades to the SCS are supported and developed in their progression. For the SCS, this includes tailored induction programmes as staff enter the SCS for the first time, as well as leadership events and other development opportunities. For Range E (the main feeder grade to SCS) the Treasury introduced the Catalyst programme in 2007-08 which aims to prepare a selected group of experienced staff for the transition to SCS. The Treasury also ran programmes for Ranges B/C and Range D to help participants prepare for transition to the next grade.

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

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

6.74 Information on cost of bonuses can be found in the Treasury Group Resource Accounts 2007-08.

Public appointments

6.75 The Treasury Group also has well established policies governing its public appointments, along with a public appointments plan which is refreshed on an annual basis and published on the Treasury website. Responsibility for individual campaigns is delegated to sponsor teams within Treasury, the Permanent Secretary's office has overall responsibility for appointment and for all areas of propriety, and as a result public appointments are an integral part of the Treasury's departmental management and strategy.

6.76 From April 2008, the Treasury is responsible for 19 public appointments to the Bank of England, classified as a Central Bank. This includes the appointments of the Governor, the two Deputy Governors and 16 appointments to the Court of the Bank of England. During 2007-08, the Treasury was also responsible for eight appointments to the Statistics Commission, the organisation classed as the Treasury's only non-departmental public body. The Statistics Commission was replaced by the Statistics Board on 1 April 2008. Responsibility for the new body rests with the Cabinet Office.

6.77 Apart from the Governor and Deputy Governors to the Bank, the 16 appointments to the Court are regulated by the Office of the Commissioner for Public Appointments (OCPA). Diversity targets for these bodies have been adopted and the Treasury seeks to ensure that the appointment process for all its bodies follows best practice as set out in the Commissioner for Public Appointments Code of Practice[21].

6.78 During 2007-08, the Treasury recruited for two positions at the Court of the Bank of England. For these high profile campaigns, applications were encouraged from across the community.

6.79 The Treasury was formerly responsible for eight appointments to the Statistics Commission. However, from 1 April 2008, this body has been replaced by the Statistics Board. The Treasury was involved in recruiting Sir Michael Scholar as Chair of the Statistics Board, although responsibility for the organisation has passed to the Cabinet Office. Under the *Governance of Britain* Green Paper proposals, the appointment was subject to a pre-appointment hearing with the Treasury Select Committee.

6.80 Treasury Ministers also make appointments to bodies that are outside the scope of the Cabinet Office's annual Public Bodies publication. These are:

- the Chair and Non Executive Directors to Board of the Financial Services Authority;
- the Non Executive Directors to the National Savings and Investments Board;
- Members of the Public Works Loan Board; and
- the Crown Estate Commissioners.

6.81 In undertaking its responsibilities on public appointments the Treasury ensures that all advertising welcomes applications from suitably qualified under represented groups. For example, the advertisements for appointments to the Court of the Bank of England emphasised the importance of broad regional, national and sectoral balance, so that these interests were represented in decision making.

6.82 Over the coming year, the Treasury will continue to work with sponsor bodies to explore ways in which its approach to diversity, indeed to appointments generally, can be improved. Its approach will take account of the fact that opportunities for increasing appointments from under represented groups are restricted by the forward programme of vacancies in the next three years, in particular the possibility of current incumbents being reappointed.

6.83 The Treasury's targets take account of the opportunities available against the Government's overall commitment to equal representation of women and men, pro-rata representation of ethnic minorities and the increased participation of disabled people.

Corporate Social Responsibility

Treasury volunteering

6.84 As part of its corporate social responsibility agenda the Treasury actively promotes employee volunteering, including providing special leave entitlements to enable staff to take a limited amount of time off each year to volunteer; holding regular events with voluntary sector organisations to raise awareness of volunteering opportunities; providing information on volunteering via an internal website and supporting a staff-led volunteers group.

[21] www.ocpa.gov.uk/~/media/assets/www.ocpa.gov.uk/codeofpractice_aug05%20pdf.ashx

6.85 During 2007-08 the Treasury's annual staff survey showed that 30 per cent of Treasury staff currently volunteer, across all grades and spanning all forms of volunteering including magistrates, school governors, charity trustees, mentoring refugees, community and advice centres and conservation work.

6.86 The Treasury's active, staff-led Volunteers Group, aims to give strategic direction to the corporate volunteering agenda in the department, raise awareness of leave entitlements and volunteering opportunities, to make it easier for staff to volunteer. The Group are fully supported by the Treasury's Executive Management Group (EMG) and Board and over the last year has promoted employee volunteering in a number of ways.

6.87 During the last year the Treasury has been working closely with the School Governor's One Stop Shop (SGOSS), a small charity, which provides a brokering service matching volunteers to school governor vacancies. The Treasury already has 30 governors in the Department and in 2007, won an award for its exceptional support of SGOSS. The partnership with the School Governor's One Stop Shop has proved to be very positive with the development a memorandum of understanding and further expressions of interest from Treasury staff. Due to the large interest of the Treasury has also set up a governors network to support staff.

Managing a sustainable, safe and secure working environment

6.88 The Treasury estate now comprises four properties: two in London and one in each of Norwich and Leeds. The main headquarters building is located at 1 Horse Guards Road, London. This is a Grade II* listed building that was refurbished under a PFI scheme and re-occupied in July 2002. The listing, together with the design of the building which incorporates almost 30 per cent of space that cannot be populated with workstations, places considerable constraints upon the department's ability to drive space efficiencies. Nevertheless workstation density in the building has increased by 9 per cent since 2005 and the department is actively seeking to increase the number of other government bodies occupying vacant space available in the building. As part of that efficiency drive the OGC was co-located in 1 Horse Guards Road in October 2007. Consequently this enabled the disposal of 2 properties on the estate producing annual running costs savings of some £3 million.

Sustainable development in our operations

6.89 The Treasury Group is committed to Sustainable Development, contributing to the UK's Sustainable Development Action Plan[22], and striving to reduce the impact of the Group's operations on the environment.

Governance

6.90 The Group Director of Finance Procurement and Operations is responsible for improving the sustainable operations of the Treasury Group. There are direct reporting chains between the Director and those teams that oversee estates, transport and procurement.

6.91 At 1 Horse Guards Road, the Treasury works closely with its PFI contractor, Exchequer Partnership (EP), which is responsible for managing building services. They operate and maintain an Environmental Management System and maintain ISO 14001 which are part of the contractual agreement. As mentioned above, the core Treasury and OGC have co-located all their staff in 1 Horse Guards Road. At 31 March 2008, the building was occupied 84 per cent by HM Treasury, 14 per cent by OGC and 2 per cent by other non Treasury Group tenants.

6.92 At Rosebery Court (Norwich site), the department works closely with MITIE who provide total facilities management of the building. At 31 March 2008, Rosebery Court was occupied 25 per cent by Treasury staff, 25 per cent by OGC and 50 per cent by other non Treasury Group tenants.

6.93 The Debt Management Office lease space in Eastcheap Court, London.

6.94 The occupancy of Trevelyan House was made up from 60 per cent OGC and 40 per cent other non HM Treasury Group tenants.

6.95 Treasury Group also lease space in Leeds where 12 OGC and OGCb.s employees are based. It is not included in the figures in Tables 6.8 to 6.17 as the floor occupied by OGC is small and therefore the environmental impact is not

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

material to the overall group. However initiatives and policies adopted across the group are also implemented in this office.

6.96 In Tables 6.8 to 6.17, figures have been rounded for standard reporting purposes, but the percentage variances have been calculated from the underlying detailed data.

Table 6.8 Treasury Group electricity usage 2005-06 to 2007-08 (MWh)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
1 Horse Guards Road	7,482	7,092	6,655	-6.2
Rosebery Court	2,262	2,222	2,146	-3.4
Trevelyan House[23]	2,383	2,243	1,416[24]	Not available
Eastcheap Court	Not available	Not available	Not available	Not available

6.97 Electricity consumption has fallen every year since the move by HM Treasury into 1 Horse Guards Road in 2003. In 2007-08 all of the electricity for HM Treasury Group was sourced from renewable sources. Contributing to this year's reduction were moves to reduce demand for electricity during off peak hours by changes to lighting system controls, and more daytime cleaning to decrease lighting needed after hours. The performance in 1 Horse Guards Road is even more impressive as building occupancy has increased in year due to the collocation of OGC with core Treasury staff.

Table 6.9 Treasury Group gas and other fuel consumption 2005-06 to 2007-08 (MWh)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
1 Horse Guards Road	3,936	2,867	2,813	-1.9
Rosebery Court	2,428	2,167	2,192	1.2
Trevelyan House	Not available	837	12[25]	Not available
Eastcheap Court[26]	Not available	Not available	Not available	Not available

6.98 1 Horse Guards Road uses the Combined Heat and Power Plant (CHP) from the Whitehall District Heating system for all of its heating requirements during the winter months, and the electricity generated from burning gas for heating is sold to the National Grid for general electricity supply. Gas is used for catering facilities, and a small amount of diesel fuel is used for a back up electricity generator. During 2007-08, in 1 Horse Guards Road the temperature at which the heating switches on was reduced by 1 degree C which significantly reduced energy consumption.

Table 6.10 Treasury Group carbon emissions from estate 2005-06 to 2007-08 (t CO^2)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
1 Horse Guards Road	4,642	4,240	4,001	-5.6
Rosebery Court	1,632	1,563	1,528	-2.2
Trevelyan House	1,246[27]	1,328	743	Not available
East Cheap Court[28]	Not available	Not available	Not available	Not available

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

[23] OGC staff working in Trevelyan House were relocated into 1 Horse Guards Road in September 2007
[24] Figures are to September 2007
[25] Figure to September 2007
[26] Up to now the Managing Agent for East Cheap Court includes the cost of Gas and Water within the contractual payment.
[27] Electricity only
[28] Up to now the Managing Agent for East Cheap Court includes the cost of Gas and Water within the contractual payment

Water consumption

Table 6.11 Treasury Group water usage 2005-06 to 2007-08 (m^3)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
1 Horse Guards Road	21,041	18,307	16,554	-9.6
Rosebery Court	2,772	2,265	1,979	-12.6
Trevelyan House	6,110	5,600	2,920[29]	Not available
East Cheap Court[20]	Not available	Not available	Not available	Not available

6.100 In 1 Horse Guards Road, reductions in water usage have been achieved through active monitoring to identify and reduce leakages, adjusting facilities to reduce the water used, and a communications strategy to encourage staff to conserve water and close working with service providers.

6.101 In Rosebery Court steps have been taken to reduce water usage and there is ongoing communication with staff to increase awareness of water use.

Waste and Recycling

Table 6.12 Waste and Recycling in 1 Horse Guards Road 2005-06 to 2007-08 (tonnes)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
Recycled Waste				
Cardboard	20	20	20	-3
Paper	155	136	172	26
Glass	9	12	16	37
Plastic	0	1	4	191
Aluminium cans	0	1	1	58
Cooking oil	0	2	1	-30
Furniture	13	17	91	451
Recycling total	**197**	**189**	**306**	**62**
General waste	233	250	217	-13
Total waste	**430**	**439**	**523**	**19**
Percentage recycled (per cent)	**46**	**43**	**58**	

[29] Figures are to September 2007

Table 6.13 Waste in Rosebery Court 2005-06 to 2007-08 (tonnes)

	2005-06	2006-07[30]	2007-08	Percentage variance on 2006-07
Recycled Waste				
Cardboard	Not available	4	9	Not available
Paper	Not available	26	44	Not available
Glass	Not available	0	0	Not available
Plastic	Not available	0	0	Not available
Aluminium cans	Not available	0	0	Not available
Cooking oil	Not available	0	0	Not available
Furniture	Not available	0	0	Not available
Recycling total	**Not available**	**30**	**53**	**Not available**
General waste	Not available	30	41	Not available
Total waste		**60**	**95**	**Not available**
Percentage recycled (per cent)		**50**	**56**	

6.102 In 1 Horse Guards Road, a strategy to increase recycling by greater availability of bins and clearer signage for staff has seen significant increases in all types of recycling, and a significant fall in general waste being sent to landfill. The overall rise in waste is primarily due to the one off waste produced from reorganising the space to make it suitable for the move of OGC into the building. Adjusting for this, waste rose by less than the increase in staff occupancy.

6.103 A similar strategy to increase general waste hubs in common areas and to breakdown the different types of waste has been introduced to Rosebery Court over the last year. This was introduced at Rosebery Court in December 2007 leading to less general waste.

6.104 At the moment DMO do not receive information about waste from the management company in the leased building where they are tenants. Over the next year, DMO will be investigating improving information, and putting an improved recycling system in place.

Travel

6.105 Staff are actively encouraged to consider the need for travel, and to consider using videoconferencing facilities. All emissions from flights are offset through the DEFRA Carbon Offsetting fund scheme. The data in Tables 6.14 to 6.16 are provided by the department's travel suppliers.

[30] 2006-07 figures only cover September 2006 to April 2007.

Table 6.14 Treasury Group air travel 2005-06 to 2007-08 (1000 miles)

		2005-06	2006-07	2007-08	Percentage variance on 2006-07
HM Treasury	Domestic	1,388	1,681	1,023	-39
	Short-Haul	339	266	190	-29
	Long-Haul	1,119	1,512	780	-43
OGC	Domestic	not available	244	139	-43
	Short-Haul	not available	17	36	112
	Long-Haul	not available	65	60	-8
DMO	Domestic	5	2	2	0
	Short-Haul	8	9	15	67
	Long-Haul	19	33	76	130

Table 6.15 Treasury Group rail travel 2005-06 to 2007-08 (1000 miles)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
HM Treasury	668	685	606	-12
OGC	not available	704	628	-11
DMO	3	2	3	50

Table 6.16 Treasury Group Emissions from Air and Rail travel 2005-06 to 2007-08 (t CO^2)

	2005-06	2006-07	2007-08	Percentage variance on 2006-07
HM Treasury	679	807	491	-39
OGC	Not available	87	88	1
DMO	6	8	17	106

6.106 The Treasury continues to work to develop systems to capture activity and data on travel in more detail, and plans to report further in future Annual Reports. Emissions from travel have been calculated using the Defra conversion factors for carbon. Figures for road related emissions are not currently available.

Health, safety and wellbeing

6.107 The Treasury recognises and accepts its responsibility as a good employer for ensuring, as far as is reasonably practicable, the health, safety and welfare at work of all employees and to ensure that the health and safety of visitors, contractors and the general public are not affected as a result of the Department's activities. The Treasury actively manages Health, Safety and Wellbeing, and has a full time welfare officer. Health and Safety resources are shared with the OGC. There were 22 minor injury accidents reported involving Treasury and OGC staff in the calendar year 2007, one accident of which resulted in the absence of work.

Security

6.108 The Treasury Group has a Departmental Security Officer who is responsible for championing security issues across the Group; acting as senior security adviser to the Permanent Secretary through the Group Director of Finance, Procurement and Operations; and ensuring the Group has organisational structures in place to implement security risk-management policies. They are also responsible for monitoring any incidents of personal data related incidents in the

Treasury Group. As shown in Tables 6.17 to 6.19, the Treasury has had no incidents of personal data losses recorded either over the last year, or in previous years. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Table 6.17: Summary of protected personal data related incidents formally reported to the information commissioner's office in 2007-08

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

Table 6.18: Summary of other protected personal data related incidents in 2007-08

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

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

Table 6.19: year-on-year total numbers of protected personal data related incidents prior to 2007-08

Total number of protected personal data related incidents formally reported to the Information Commissioner' Office, by category number						
	I	**II**	**III**	**IV**	**V**	**Total**
2006-07	0	0	0	0	0	0
2005-06	0	0	0	0	0	0
Total number of other protected personal data related incidents, by category number						
	I	**II**	**III**	**IV**	**V**	**Total**
2006-07	0	0	0	0	0	0
2005-06	0	0	0	0	0	0

Managing knowledge

6.109 Knowledge, records and information management operates as one unit across the Treasury, along with a small team within OGC, in order to emphasise the importance of managing the department's intellectual capital both to meet legislative requirements as well as enabling the department to provide excellent information to the citizen. The unit is also responsible for managing the library and online databases which provide additional market intelligence and external information.

6.110 Knowledge and records management processes and behaviours have been further developed over the past year to provide assurance that records and information can be found and that knowledge sharing is in place on a 'share with care' principle. Staff are required to take responsibility for the content that they generate and use, to ensure it is up to date and appropriately filed.

6.111 In the light of recent high-profile cases concerning the safe sharing of data - in response to which the Cabinet Office launched a cross government exercise to assure data handling in departments - and the ability to locate records rapidly when needed, the Treasury Group has rigorous processes to ensure the appropriate use of the department's Electronic Document and Records Management system (EDRM), as well as holding regular training courses to ensure staff are kept up to date with good knowledge management techniques. For paper records, the department has moved to mandate the use of corporate systems - backed by processes to ensure that there is a consistent approach to record keeping across the organisation.

Managing communications with the public and Parliament

6.112 The Treasury shares information with Parliament and the public in a variety of ways – in publications or reports, through the media, online or by way of parliamentary questions, correspondence and its obligations under the Freedom of Information Act.

6.113 The Treasury website[31] is one of the most valuable means of providing up to date information about the Treasury and its work. Updated regularly, it contains a wide range of information about the Department, statements

[31] www.hm-treasury.gov.uk Each member of the Treasury Group has its own web-presence. Reporting here relates to the core Treasury's website only.

made by the Chancellor and other Treasury Ministers, public consultations, the Treasury's wide-ranging policy work and access to all of the Treasury's reports and publications. The Treasury website received over 69 million page views from 1 April 2007 to 31 March 2008, including 1 million on Budget 2008 day alone.

6.114 During 2007-08, the Treasury has targeted wider audiences through the use of new media and communication channels including the use of interactive television and mobile phones. For Budget 2008, the Treasury launched a channel on YouTube as part of a communication strategy to reach a wider audience with information about the Budget. The channel shows a number of short pieces of film footage providing a behind the scenes look at the Chancellor of the Exchequer and the Chief Secretary to the Treasury on Budget 2008 day. The Treasury intends to build on these new channels of communication ahead of the PBR 2008.

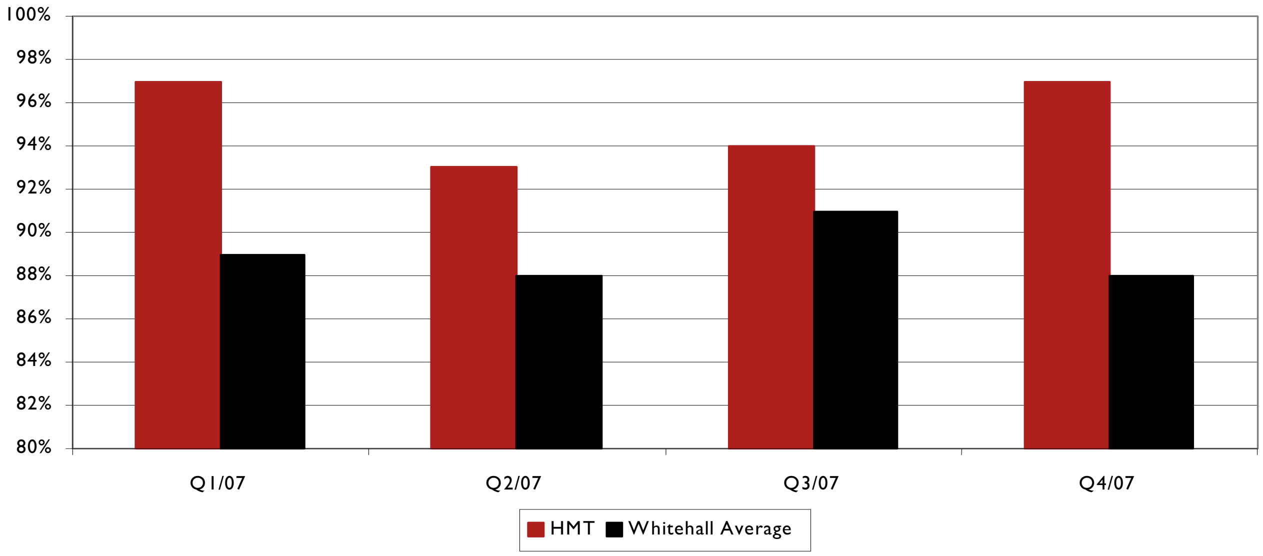
6.115 For the 2006-07 Parliamentary session, which ended on 30 October 2007, the Treasury again met its targets for answering Parliamentary questions within the timescales set by the two Houses of Parliament. Against targets of 70 per cent for Commons Named Day questions, 80 per cent for Commons Ordinary questions and 95 per cent for Lords questions, the Treasury achieved 71 per cent, 83 per cent and 95 per cent respectively.

6.116 The Treasury has retained the same targets for the 2007-08 session, which began in November 2007 and which will run until the autumn of 2008. The corresponding performance figures on 31 March 2008 were 54 per cent, 70 per cent and 86 per cent respectively, reflecting both the high intake of questions, many concerning topical issues, and the importance Ministers attach to giving appropriate answers. The Treasury remains committed to answering promptly wherever possible.

6.117 The Treasury aims to respond to at least 80 per cent of all correspondence within 15 working days of receipt. Performance, overall, for the year 2007-08 was 82 per cent against receipts of 10,500 letters from the general public and 6,200 letters from Members of Parliament. In addition the Treasury dealt with approximately 14,000 general telephone enquiries and 20,000 email enquiries.

6.118 During 2007 the Treasury received 1090 Freedom of Information (FOI) requests, slightly down on the previous average of just over 100 a month. Of these 95 per cent were answered within 20 working days or within the permitted time extension where a public interest test needed to be assessed. This is an improvement of 2 per cent on 2006 (or 18 per cent on 2005). Releases deemed to be of wider public interest are placed on our public website.[32] The Treasury continue to be one of the better performing Whitehall departments for responding to FOI requests – Figure 6.20 shows the Treasury's response rate per quarter over the period as compared to the average for Whitehall departments. OGC has retained 100 per cent compliance of FOI requests responded to within 20 working days in 2007-08. An OGC website[33] and updated publications policy also helps the public access a range of information of wider public interest.

Figure 6.20: Freedom of Information: timeliness of responses: HM Treasury compared with Whitehall average



[32] http://www.hm-treasury.gov.uk/about/information/foi_disclosures/foi_disclosures_index.cfm
[33] http://www.ogc.gov.uk/freedom_of_information.asp

Future plans

6.119 As part of its response to the 2007 CSR, the Treasury Group has set itself stretching Departmental Strategic Objectives (DSOs), and related outcomes, which taken together define the strategic direction and output of the Group over the 2007 CSR period. In order to meet the challenges of delivering these DSOs, the Treasury needs effective supporting systems, processes, resource management and corporate capability: the Treasury is therefore committed to continuing to enhance the effectiveness and efficiency of its corporate governance and its corporate services over the 2007 CSR period. As such, the Treasury Group is formulating a Departmental Corporate Objective (DCO) to sit alongside the DSOs which will capture corporate activities and outcomes.

The Treasury's Capability Review

6.120 The Treasury's Capability Review was published on 18 December 2007[34]. The review found both strengths and weaknesses in the department. Specifically, the review praised the department's ability to base choices on evidence, set direction, focus on outcomes and plan, resource and prioritise, but highlighted a need to build both capability of staff and common purpose with stakeholders.

The Treasury Group's 2011 vision

6.121 In response to the capability review the Board has set out an agenda to strengthen the department with a clearly identified vision for 2011:

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

6.122 To guide the organisation in meeting this vision, the Board has identified five themes for change over the next three years:

- **Workforce, skills and culture**: where our vision is a Treasury whose people have the skills and experience needed to deliver our Departmental Strategic Objectives and achieve our Vision for 2011, and who reflect the society we serve and exemplify our values;
- **External relations and stakeholders**: where our vision is a Treasury which is respected by its stakeholders, whose staff demonstrate the Treasury values in their dealings with all external stakeholders, supported by a more strategic, proactive approach to stakeholder engagement;
- **Our role at the centre of Government**: where our vision is a strong and coordinated centre of government, with Treasury and Cabinet Office working collaboratively on their shared responsibilities to support better delivery of public services;
- **Leadership, strategy and corporate governance**: where our vision is a Treasury led by people who behave according to the Treasury values and are accountable for everything they do, reinforced by a strong corporate governance framework that provides the right strategic direction for and management of the department; and
- **Business processes and systems**: where our vision is a Treasury supported by effective, customer-focused business processes and systems, enabling the Treasury to manage itself well and do business in an efficient and sustainable way.

6.123 The Treasury Group will consider the most appropriate way to report on activity in this area in the 2008-09 Annual Report and Accounts

[34] www.hm-treasury.gov.uk/about/about_capability.cfm

A

HM Treasury Group financial data and projections

Includes:

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

HM TREASURY GROUP FINANCIAL DATA AND PROJECTIONS

INTRODUCTION

A1 This annex describes, through comparative tables and additional information, an overview of the finances of the Treasury Group. The data presented in this section is based on unaudited accounts for 2007-08.

A.2 The data presented here has been restated from similar tables published in last year's report to reflect the transfer of the budget and outturn for the Prime Minister's Delivery Unit from the Cabinet Office to the Treasury and the transfer of responsibility for payments of grants to Parliamentary bodies from the Treasury to the House of Commons Commission, during 2007-08.

A.3 The events listed below do not affect the restatement of this year's data but are significant in the understanding of the figures and commentary:

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

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

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

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

A.4 In this annex

- Table A.1 summarises the Group's public spending, including both resource and capital;

- Table A.2 provides detail on resource DEL by spending body and function;

- Table A.3 analyses net Administration costs (all within DEL);

- Table A.4 provides detail of resource AME;

- Table A.5 analyses the capital budget;

- Table A.6 summarises the Group balance sheet; and

- Tables A.7 and A.8 summarises spend by Objective and by future CSR Departmental Spending Objectives

A.5 Commentary on the year on year changes in resource budgets is set out beneath Tables A.3 and A.4. These tables show the Treasury Group's Total Resource Budget, analysed between DEL and AME, whereas the separately published resource accounts mainly show income and expenditure in the context of Supply voted by Parliament[1]. The Treasury's budget regime and the Parliamentary Supply regime differ in terms of the boundary of the items included and as a result some items appear in one set of statements but not the other. Commentary on capital movements is set out beneath Tables A.5 and A.6. The Statement of Operating Cost by Departmental Aim and Objectives (Table A.7) analyses the current and prior year's income and expenditure according to the contributions to the eight objectives set for Spending Review 2004 whilst Table A.8 analyses future spend over the Departmental Spending Objectives which will be in place for the CSR period.

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

A.6 Due to rounding, some of the totals in the tables may differ from the sum of the line items.

TREASURY GROUP FINANCES

Introduction

A.7 The Treasury Group's funding for the Spending Review 2004 period, running from 2005-06 to 2007-08 inclusive, was a "flat cash" £248 million Departmental Expenditure Limit (DEL) for each year. After the transfer of the budget for MEP's salaries and pensions to the Cabinet Office and the reclassification of coinage metal costs to Annually Managed Expenditure (AME), and including an extra allocation of £2 million from the Financial Inclusion Fund for 2007-08, and the Prime Minister's Delivery Unit transfer, the DEL limits were £227 million in 2005-06, £232 million in 2006-07 and £232 million in 2007-08.

A.8 Outturn against the DEL limit was £206 million in 2006-07 and £201 million in 2007-08. The Group's underspending to date against its SR2004 limits has been in part enabled by the efficiency measures introduced in response to the Gershon Review. Progress against those targets is set out in the efficiency section of this annex. Projections for 2008-09 to 2010-11 show a continuous reduction in DEL limits as a result of the investment in transformation costs and also taking into consideration the CSR 07 limits. These figures will be assessed again based on the results of 2007-08.

A.9 The total Resource Budget outturn, including AME expenditure was £236 million in 2006-07, and £226 million in 2007-08. The key year on year changes between 2006-07 and 2007-08 were as follows:

- coinage metal costs (classified as AME and shown in Table A.4) decreased by £2 million, due to a plateau in the market prices of copper and nickel which had seen increases since 2005-06; there was also a reduction of £3 million in manufacturing costs (classified as DEL) due to demand for coinage being less than forecast and also due to moving to a new accounting treatment;

- the Treasury's dividend from the Bank of England was £81 million in 2007-08. This amount, though slightly lower than the 2006-07 figure, was higher than average as a result of higher income due to an improvement in the Bank's performance. In 2006-07, there was an exceptional extra dividend which arose from the settlement of £74 million received by the Bank from the liquidators and receivers of BCCI, of which the Treasury received 50 per cent. After allowing for cost of capital (Table A.4), the net cost of investment in the Bank was £1 million in 2006-07 compared to £12.5 million in 2007-08;

- there was a impairment reversal of £15 million following the revaluation of 1 Horse Guards Road in 2007-08;

- estates rationalisation in 2007-08 saw the OGC London office vacated with staff co-locating with Treasury in the Horse Guards Road building ahead of schedule, and the disposal of Thistle Street in Edinburgh. Group Shared Services transformation is well underway and benefits realisation developing further;

- corporate services staff previously employed at OGC transferred to HM Treasury with effect from 1 April 2007;

- 2007-08 marked the last year of SR2004, with costs and staff numbers falling by 5.66 per cent and 8.29 per cent respectively across the Group for the period; and

- further information on these changes, along with the Group's progress against the efficiency targets and plans set out for the SR2004 period, is set out in the efficiency section starting of this annex.

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

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

A.11 For 2008-09, budgets have been set in line with CSR07, as well as indicative 2009-10 and 2010-11 budgets.

A.12 Within resource DEL, between 5 and 7 per cent of the budget for 2008-09 to 2010-11 is currently held in the Departmental Unallocated Provision (DUP). In 2008-09 some of this funding will be applied on non-recurrent transformation costs, including further refinement of OGC's role following *Transforming Government Procurement* and investment in secure but flexible information systems to support better ways of working with a reduced workforce. At this stage of our planning for 2009-10 and 2010-11, we need to retain flexibility to respond to changes in circumstances and priorities that may emerge in the next two to three years.

A.13 To the extent that transformation costs cannot be met from within the DEL, they will be funded by draw down from the Modernisation Fund. The Treasury Group was allocated up to £18 million modernisation funding as part of its CSR settlement. Bids for Modernisation Fund money will be supported by a business case and included as appropriate in the Supplementary Estimates for 2008-09, 2009-10 and 2010-11, subject to the approval of the Chief Secretary.

Table A.1: Total departmental spending (resource and capital) for the HM Treasury Group

		Outturn							Plans	Projections	
£ million	Para ref	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 unaudited	2008-09	2009-10	2010-11
Resource DEL											
Core Treasury & GSS[2]	*A.16*	105	129	135	138	139	136	135	142	139	135
DMO	*A.21*	8	7	8	7	8	7	10	11	10	10
Coinage	*A.22*	22	21	21	18	17	19	16	21	21	20
OGC	*A.25*	-12	27	20	19	41	33	31	26	23	23
Other functions	*A.28*	10	10	10	10	10	10	9	8	8	8
DUP[3]	*A.12*								13	13	13
Total Resource DEL		**134**	**194**	**194**	**191**	**215**	**206**	**201**	**220**	**215**	**209**
Of which: Near-cash		*149*	184	190	198	204	195	200	221	216	209
Resource AME											
Impairment charges	*A.32*	1	73		-11	-5	1	-15			
Coinage	*A.33*	15	14	13	16	16	25	24	33	34	36
Bank of England	*A.34*	63	72	77	57	36	1	13	51	53	55
Other functions	*A.28*	1	2	2	2	2	2	2	2	2	2
Total Resource AME		**81**	**160**	**92**	**64**	**50**	**29**	**24**	**85**	**89**	**93**
Of which: Near-cash		*-30*	-24	-17	-24	-30	-58	-56	-15	-16	-17
Total Resource Budget		**216**	**353**	**286**	**255**	**265**	**236**	**226**	**305**	**305**	**301**
Of which: depreciation		9	80	8	-6	1	9	6	9	9	9
Capital DEL											
Core Treasury & GSS[2]	*A.37*	8	131	3	-26	6	2	1	4	4	3
DMO		2	1	1	1	1	1	1	1	1	1
OGC	*A.38*	-42	-74		-3	-16	-3	-3			
DUP[3]									2	2	3
Total Capital Budget		**-32**	**59**	**4**	**-28**	**-9**	**-1**	**-1**	**7**	**7**	**7**
Capital AME											
Core Treasury							-1				
Northern Rock Financing	*A.41*								14,000		
Total Capital Budget AME							**-1**		**14,000**		
Total departmental spending											
Core Treasury & GSS[2]		98	254	127	104	136	121	116	14,132	129	126
DMO		9	7	8	7	7	8	11	12	11	11
Coinage		37	34	34	34	33	44	40	54	55	56
OGC		-54	-47	20	16	27	32	28	25	23	23
Bank of England		63	72	77	57	36	1	13	51	53	55
Other functions		23	13	16	14	15	17	11	15	15	13
DUP[3]									15	15	16
Total departmental spending[4]		**175**	**333**	**282**	**232**	**254**	**225**	**219**	**14,303**	**302**	**300**
Total DEL		96	246	190	157	200	197	195	218	213	207
Total AME		79	87	92	75	54	27	24	14,085	89	93

[2] GSS = Group Shared Services.

[3] DUP = Departmental Unallocated Provision.

[4] Total departmental spending is the sum of the resource budget and the capital budget *less* depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL *less* depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME *less* depreciation in AME.

Resource Departmental Expenditure Limit (DEL) including Administration Costs

A.14 Table A.2 below sets out Resource DEL budget for the Treasury Group.

Table A.2: Resource DEL budget for HM Treasury Group, by spending body

		Outturn							Plans	Projections	
£ million	Para ref	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 unaudited	2008-09	2009-10	2010-11
Core Treasury & GSS		**105**	**129**	**135**	**138**	**139**	**136**	**135**	**142**	**139**	**135**
Net administration costs, including GSS	*A.16*	85	117	122	120	120	118	128	123	122	118
Financial Inclusion Fund (admin)	*A.18*					1	1	1			
Banking and gilts registration	*A.19*	12	11	12	15	10	12	11	12	13	13
Other core Treasury programme costs	*A.20*	8	1	1	3	8	4	-4	6	4	4
DMO	*A.21*	**8**	**7**	**8**	**7**	**8**	**7**	**10**	**11**	**10**	**10**
Net administration costs	*A.21*	8	6	7	6	8	7	8	9	8	8
Net programme costs			1	1	1		1	1	2	2	2
Coinage	*A.22*	**22**	**21**	**21**	**18**	**17**	**19**	**16**	**21**	**21**	**20**
OGC	*A.25*	**-12**	**27**	**20**	**19**	**41**	**33**	**31**	**26**	**23**	**23**
Net administration costs	*A.25*	19	22	20	23	32	33	22	26	23	22
OGC Restructuring Costs								10			
Residual estate	*A.26*	-31	5		-5	1					
Efficiency Challenge Fund	*A.27*	0			1	8					
Other functions	*A.28*	**11**	**10**	**10**	**10**	**10**	**10**	**9**	**8**	**8**	**8**
Grants to Statistics Commission and Parliamentary bodies	*A.30*	1	2	2	2	2	2	1			
Civil List (net)	*A..28*	9	8	8	8	8	8	8	8	8	8
Departmental Unallocated Provision									**13**	**13**	**13**
Total Resource DEL		**134**	**194**	**194**	**192**	**215**	**206**	**201**	**220**	**215**	**209**
Of which:											
Near-cash, of which		*149*	184	190	198	204	195	200	221	216	210
Pay		69	77	82	85	91	98	94			
Goods and services		*80*	99	93	99	97	86	103			
Grants and subsidies		*1*									
Depreciation		7	7	8	-3	6	8	6	9	9	9

A.15 Table A.3 below sets-out the Administration costs for the Treasury Group.

Table A.3: Administration costs for HM Treasury Group

		Outturn							Plans	Projections	
£ million	Para ref	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 unaudited	2008-09	2009-10	2010-11
Gross administration costs		**130**	**164**	**167**	**166**	**185**	**185**	**197**	**186**	180	175
Related administration cost receipts		-18	-19	-19	-17	-24	-25	-37	-17	-16	-14
Total net administration costs		**112**	**145**	**148**	**149**	**161**	**160**	**160**	**168**	**164**	**160**
Analysis by activity											
Core Treasury & GSS	*A.16*	85	116	121	120	121	120	130	123	122	118
DMO	*A.21*	8	6	7	6	8	7	8	9	8	8
OGC	*A.25*	19	22	20	23	32	33	21	25	23	22
DUP	*A.12*								11	**11**	**11**
Total net administration costs		**112**	**145**	**148**	**149**	**161**	**160**	**160**	**168**	**164**	**160**
Gross administration costs includes:											
Paybill		69	77	82	85	91	99	94			
Other		61	87	85	81	93	86	103			
Core Treasury and GSS											
Consultancy[5]	*A.16*	1.16	3.03	6.16	4.91	6.10	3.44	17.65			
Travel and subsistence		1.34	1.84	1.94	2.11	2.32	2.48	2.32			
DMO includes:											
Consultancy[5]		0.32	0.56	0.52	0.77	0.58	0.34	0.23			
Travel and subsistence		0.02	0.03	0.04	0.03	0.04	0.03	0.06			
OGC includes:											
Consultancy[6]		n/a	n/a	4.22	5.71	7.66	5.59	6.27			
Travel and subsistence		1.47	1.44	1.55	1.72	2.04	2.40	1.78			
Gross administration costs		**130**	**164**	**167**	**166**	**185**	**185**	**197**	**186**	**180**	**175**

Core Treasury and Group Shared Services (GSS)

A.16 The costs in Table A.2 relate to work across all the Group's objectives, described in Chapters 2 to 5 of this report. Within the totals, pension costs have been £2 million a year higher since 2003-04 because of increases in the contributions payable by all departments to the Principal Civil Service Pension Scheme; 2005-06 included work for the UK's joint presidencies of the G7 and G8; and the Treasury's work on the 2004 Spending Review and the CSR07 account for around £2 million of costs in each of 2003-04 and 2006-07. In Table A.3, under Core Treasury and GSS, there is a significant increase in consultancy spending as a result of work in connection with Northern Rock and the Poynter Review. The full cost of the consultancy work was recovered from Northern Rock, Bank of England, Financial Services Authority (FSA) and, in the case of Poynter, from HMRC. All of this was Appropriated In Aid.

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

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

A:17 The projections for 2008-09 through to 2010-11 relate to the CSR07 period and show the costs of the core Treasury plus Group Shared Services falling in nominal terms (and faster in real terms). The main contributors to the planned savings are further rationalisation of the Group's accommodation and other efficiencies in corporate functions, together with changes in the directorate and senior management structure. 2008-09 and 2010-11 projected spending includes allocations for work on the next Spending Review.

A:18 The Financial Inclusion Fund was established as part of Spending Review 2004. The Treasury's allocation from it has covered the work of the Financial Inclusion Taskforce and the Treasury's Financial Inclusion team, which provides policy support and administers the distribution of the fund to other departments. In 2007-08 this fund paid for an independent feasibility study, led by Otto Thoresen, which researched and designed a national approach to generic financial advice. A two year pathfinder scheme costing £12 million jointly funded by HMT and the FSA was announced on 3 March 2008, and provides the detail on how this scheme will operate. Funding for the Treasury's contribution to the pathfinder project is included in the Main Estimate for 2008-09 and, if necessary, an application will be made for a drawdown of End of Year Flexibility (EYF). Financial Inclusion contributes mainly to Objective III.

A.19 Banking and gilts registration costs (which contribute to Objective I) comprise the fees paid to the Bank of England for management of the UK's foreign currency reserves, and fees for gilts registration services which since 2004-05 have been contracted out to Computershare. The peak in reported costs in 2004-05 included Computershare's start up costs. In addition, £1.4 million costs relating to 2005-06 were erroneously accounted for in 2004-05.

A.20 The increase in Other Core Treasury programme costs in 2005-06 includes spending on the UK's joint presidencies of the G7 and G8, and spending on the promotion of retail savings products.

Debt Management Office (DMO)

A:21 The increase in the Debt Management Office's resource budget for 2007-08 represents, among other things, a planned renewal programme of the DMO's strategic systems and the continued development of initiatives that are intended to reduce the agency's operational risk and enhance its operational resilience. The DMO contributes primarily to Objective I, and its work is mainly described in Chapter 2.

Coinage (DEL and AME)

A:22 In line with the Royal Mint's other customers, the Treasury moved from paying for coins upon issue to paying for them upon production. As part of this change, the Treasury purchased the existing stock of finished coins in November 2007. The stock of finished coins awaiting issue stood at just under £8 million as at the balance sheet date. The budgetary impact of the stock purchase will feed through to the Treasury's DEL and AME budgets when the stock is used. The new Service Level Agreement provides that stock production will be per an agreed schedule, with an agreed stock buffer. In exchange for the move to buying stock on production, the Treasury was able to obtain a discount on the manufacturing price. This new arrangement results in timing differences for the Treasury's Net Cash Requirement, however the Royal Mint's stock holding and consequent working capital requirement are reduced.

A:.23 Table A.2 includes the manufacturing costs of coinage, and Table A.4 includes the metal cost. Having seen sharp rises in recent years, metal prices plateaued throughout most of 2007-08 before rising again steeply in the last three months of the year. The propensity of metal prices to volatility means that the metal element of the cost of coinage continues to be reclassified as AME, while the manufacturing cost remains in DEL.

A.24 The demand for coinage for the year overall was less than forecast, and followed a slightly different timing pattern than expected, with higher than expected demand early in the year, lower than expected pre-Christmas demand but higher than expected in the final months of the year. The supply of coinage contributes to Objective I, alongside the work described in chapter 2.

Office of Government Commerce (OGC)

A.25 The work of the Office of Government Commerce is described in Chapter 5, and is a key contributor to Objective IV. The OGC's expenditure increased between 2004-05 and 2005-06 due to an expansion of its remit in that period, particularly on improving efficiency across the public sector. The planned reduction in Administration spend from 2008-09 onwards follows the decision, announced in *Transforming Government Procurement,* that OGC will become a smaller, higher calibre organisation with a remit to focus on procurement and property asset management in central government. As part of the transition to a smaller organisation, OGC has undertaken a voluntary early retirement and severance scheme during 2007-08. The costs of this scheme, £10.3 million, scores as programme expenditure. The OGC has been granted an extra £5 million to invest in new business projects in 2008-09.

A.26 OGC is responsible for the management and disposal of the residual surplus Civil Estate properties inherited in 1996 by its predecessor, the Property Advisers to the Civil Estate. Between 1996 and 2007, the Estate reduced from 384 to 16 properties, and this had a considerable impact on OGC's resource budget, particularly in the earlier years. The negative outturns on the Residual Estate line occur because the OGC's balance sheet contains provisions for the onerous costs of residual leasehold properties. As the estate is disposed of, surplus provisions are released from the balance sheet, counting as credits to the resource budget. The value of the releases becomes smaller as the rate of disposal of properties reduces.

A:27 The Efficiency Challenge Fund supported departments and other public sector bodies work towards their efficiency targets, managed through OGC as part of the SR2004 settlement. It has been agreed, and announced in the Budget, that, from 2008-09 OGC will also be responsible for a new Centre of Expertise on Sustainable Procurement. The new Chief Executive of OGC, Nigel Smith, has also led a strategic review looking at how OGC will deliver the changes set out in *Transforming Government Procurement*. The results of the review, and plans for the way forward were presented to the Commercial Delivery Board.

Other functions

A:.28 The "Other Functions" section of the table includes costs borne by HM Treasury for historical reasons. The Civil List (together with the Royal Household Pension Scheme, which is within AME and is shown in Table A.1) is a Standing Service of the Consolidated Fund i.e. without further year-by-year Parliamentary authority, which is included in HM Treasury's resource budget but not included in the resource accounts. The fixed annual amount for Her Majesty The Queen's Civil List is £7.9 million for the ten year period to 31 December 2010. Additionally, Parliamentary Annuities are paid to other members of the Royal Family amounting to £1,613,000, of which £1,254,000 is reimbursed to the Exchequer by The Queen. The overall Civil List net figure is therefore £8,259,000 as shown in table A.2. Pending negotiation of the new settlement, the projection for 2010-11 shows a continuation of the current £8,259,000 net figure.

A:29 During 2006-07 it was agreed that budgetary responsibility for the salaries and pensions of UK Members of the European Parliament, which was previously a charge on the Treasury's DEL, should pass to the Cabinet Office, which has policy responsibility. The cost (around £7 million a year) will now appear in the Cabinet Office's spending tables.

A.30 The Treasury used to pay grants to the four Parliamentary bodies (the Commonwealth Parliamentary Association, the British-American Parliamentary Group, the Inter-Parliamentary Union and the British-Irish Parliamentary Union) totalling around £3 million a year. The Parliamentary bodies are now funded by the House of Commons Commission, and the Treasury's DEL has been reduced by the value of the grants that would otherwise have been paid, in line with the process for machinery of government changes.

A.31 From 1 April 2008, the new Statistics Board has taken on the functions of the Statistics Commission, and the Treasury's funding for the Statistics Commission has transferred to the Board accordingly.

Table A.4: Resource AME budget for HM Treasury Group, by spending body

£ million	Para ref	Outturn							Plans	Projections	
		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 unaudited	2008-09	2009-10	2010-11
Core Treasury: impairment charges/ credits	A.32	**1**	**73**	**-**	**-11**	**-5**	**1**	**-15**	**-**	**-**	**-**
Coinage	A.33	**15**	**14**	**13**	**16**	**16**	**25**	**24**	**33**	**34**	**36**
Metal costs		11	9	11	13	15	23	24	28	29	31
Cost of capital		4	5	2	4	1	2	4	4	5	5
Royal Mint Dividend								-4			
Net cost of investment in the Bank of England	A.34	**63**	**72**	**77**	**57**	**36**	**1**	**13**	**51**	**53**	**55**
Cost of capital		105	106	107	95	83	84	94	96	100	105
Dividend receivable		-42	-34	-30	-38	-47	-83	-81	-45	-47	-50
Other functions: Royal Household Pension Fund	A.28	**1**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Total Resource AME		**81**	**160**	**92**	**64**	**50**	**29**	**24**	**85**	**89**	**93**
Of which:											
Near-cash, of which		-30	-24	-17	-24	-30	-58	-60	-15	-16	-17
Pay		1	2	2	2	2	2	2	2	2	2
Goods and services		11	9	11	13	15	23	19	28	20	31
Depreciation and impairments		1	73	-	-11	-5	-1	-15	-	-	-

Impairment charges and credits

A.32 Asset revaluations and impairments were previously within the Departmental Expenditure Limit but have now been reclassified to Annually Managed Expenditure (AME). This change applies to all departments. The amounts in Table A.4 include:

- £69 million within the total for 2002-03, representing the difference between the costs of refurbishing 1 Horse Guards Road incurred by the Treasury's private sector partner and the value, independently assessed, of the refurbished building based on rental potential (a full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999);
- £11 million revaluation gain on 1 Horse Guards Road in 2004-05 and a further £5 million gain in 2005-06; and
- £15 million impairment reversal following the revaluation on 1 Horse Guards Road in 2007-08.

Coinage

A.33 Cost of metal used to produce UK circulating coinage is discussed in the preceding section. Within AME, there is also a cost of capital charge on the Treasury's investment in the Royal Mint. The rate for the cost of capital charge was reduced in 2005-06 to 3.5 per cent while the Mint underwent restructuring but was raised to 7.2 per cent as the benefits of restructuring begin to be realised and the Mint returns to profitability.

Net cost of investment in the Bank of England

A.34 Treasury is the sole shareholder in the Bank of England. The Bank pays the Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. This is credited as income to the central Treasury budget but is then surrendered to the Consolidated Fund. The Treasury's investment in the Bank is valued in the Treasury's accounts and for the purpose of the cost of capital charge at the Bank's net asset value per its own accounts. For 2005-06 onwards, the charge is based on a rate of 4.94 per cent, which is the post tax equivalent of the Bank's 6.0 per cent target rate of return. Prior to 2005-06 the gross target rate of return was used (7 per cent until 2003-04; 6 per cent in 2004-05).

A.35 The 2006-07 dividend includes an exceptional amount relating to the settlement of £74 million received by the Bank from the liquidators and receivers of BCCI. In 2007-08, the dividend was £81million explained by higher income due to an improvement in the Bank's performance. Projections for 2008-09 onwards prudently assume an upward trend in the net cost of investment. The investment in the Bank contributes to Objectives I and III, described in Chapters 2 and 3.

Table A.5: Capital budget for HM Treasury Group (all DEL)

		Outturn							Plans	Projections	
£ million	Para ref	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 unaudited	2008-09	2009-10	2010-11
Core Treasury including GSS		**8**	**131**	**3**	**-26**	**6**	**2**	**1**	**4**	**4**	**3**
Administration	A.36	8	145	3	-26	6	2	1	4	4	3
Investments	A.37		-14			6					
Debt Management Office		2	1	1	1	1	1	1	1	1	1
Office of Government Commerce:[7] Residual Estate and Whitehall Systems	A.38	-42	-74		-3	-16	-3	-3			
Departmental Unallocated Provision									2	2	3
Total Capital DEL		**-32**	**59**	**4**	**-28**	**-9**	**-1**	**-1**	**7**	**7**	**7**

Core Treasury and GSS

A.36 Since 2002-03, when the Treasury occupied its new headquarters building at 1 Horse Guards Road procured under the Private Finance Initiative, the Group's capital expenditure has been mainly on operational IT assets. Expenditure for 2007-08 includes cyclical renewal of those assets.

A.37 In line with standard accounting practice the £141 million capital costs of the 1 Horse Guards Road project, incurred by and paid by the private sector partner, were presented as part of the Treasury's own capital expenditure for 2002-03. A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999. The credit of £14 million in 2002-03 arose from the disposal of residual shares from past privatisations in power companies, Powergen and Innogy. The 2004-05 capital outturn included a receipt from the disposal of the land at 100 Parliament Street for £22 million. In 2007-08, capital outturn includes disposal proceeds of £2 million in respect of the sale of land and buildings at Thistle Street, in Edinburgh.

Office of Government Commerce residual estate and Whitehall Systems

A.38 Capital receipts from the sale of residual freehold properties of £42 million in 2001-02 and £74 million in 2002-03 were mostly accounted for by the sale of, respectively, 2 Marsham Street SW1 and Burtonwood, near Warrington. The credit for 2004-05 is the capital receipt of £11 million for the transfer of the Whitehall heating and standby power Systems to OGCbuying.solutions, offset by the issue of the loan for £8 million to OGCbuying.solutions to facilitate the transfer. The credit for 2005-06 includes receipts of £13 million for the disposal of the residual estate freehold property at Honeypot Lane, Stanmore and £1 million for part repayment of the loan to OGCbuying.solutions. The £3 million credit for 2006-07 and 2007-08 are further repayments of the same loan which, as at 31 March 2008, was fully paid off.

A.39 The proceeds from disposals of shares in privatised utilities, 100 Parliament Street and the OGC residual estate were surrendered to the Consolidated Fund and not spent by the Treasury Group.

A.40 The Debt Management Office's capital spending contributes to Objective I. The Office of Government Commerce's capital spend contributes to Objective IV. Core Treasury and GSS capital spend contributes to all objectives.

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

Table A.6: Capital employed by HM Treasury Group

		Outturn					
£ million	Para ref	**2002-03**	2003-04	2004-05	2005-06	2006-07	2007-08 unaudited
Fixed assets		**1,663**	**1,710**	**1,743**	**1,880**	**2,000**	**21,739**
Of which							
Land & buildings	*A.41*	110	106	100	105	102	110
IT assets		6	4	8	7	5	5
Other tangible assets	*A.42*	16	15	3	4	4	2
Investments	*A.43*	1,531	1,585	1,632	1,764	1,889	21,622
Other assets	*A.42*	**187**	**78**	**104**	**74**	**111**	**122**
Creditors (<1 year)	*A.42*	**-204**	**-83**	**-106**	**-98**	**-125**	**-138**
Creditors (>1 year)	*A.41*	**-142**	**-145**	**-147**	**-150**	**-153**	**-158**
Provisions		**-31**	**-28**	**-16**	**-14**	**-16**	**-19,318**
Capital employed		**1,473**	**1,533**	**1,577**	**1,692**	**1,818**	**2,247**

A.41 Treasury Group's balance sheet is dominated by the provision, and the related asset, arising from the obligation to replace the Bank of England's loan to Northern Rock with direct Treasury funding during summer 2008, both valued at £19.3 billion. Other significant assets and liabilities include::

- the shareholding in the Bank of England which is valued in line with the Bank's net assets at £2.3 billion at 29 February 2008;
- the operational offices used by the core Treasury, OGC and DMO since 2002-03 (£110 million). A full explanation is given in note 14.2 to Treasury's 2002-03 Accounts, HC 999;
- investments in Partnerships UK (£23.4 million), OGCbuying.solutions (£0.35 million) and the Royal Mint (£5.5 million);
- Northern Rock was brought into temporary public ownership on 22 February 2008 at nil cost ; and
- the long term creditor, since 2002-03, for the 1 Horse Guards Road PFI contract (£158 million) .

A.42 The fall in the value of other tangible fixed assets from 2004-05 is due to the transfer of the Whitehall Systems from OGC to OGCbuying.solutions. Other assets include debtors, cash and (in earlier years) the vacant civil estate managed by the OGC. The principal short-term creditor is the Consolidated Fund.

A.43 The investment in Northern Rock has been included in the Resource Accounts at a nil value pending the calculation of the company's value by the independent valuer appointed in accordance with the Northern Rock plc Compensation Scheme Order 2008 As announced at the Budget and respresented by the investment asset and associated provison outlined in paragraph A41, above,, the Treasury will, during 2008-09, replace the Bank of England's loan to the company with direct Treasury funding, in order to comply with Article 101 of the EC Treaty which restricts monetary financing of government undertakings.

A.44 The remaining increase in the value of investments and current liabilities in 2007-08 is due mainly to the revaluation of the Bank of England of £433 million and the associated increase in creditors to surrender the dividend of £81 million received from the Bank of England to the Consolidated Fund.

Payment of Suppliers

A.45 All government departments have a target to make all payments not in dispute within 30 days or less of acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2007-08 the Group achieved a performance of 95 per cent against this target, down from 97 per cent for the previous year. The reduction in performance mainly occurred during the implementation phase of the Group Shared Services project.

Operating Cost Statement by Departmental Objectives

Table A.7: Consolidated Statement of Operating Costs by Departmental 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.

£ thousand			2007-08			2006-07 (Restated)
Objectives:	Gross Expenditure	Income	Net	Gross Expenditure	Income	Net
I	147,767	-48,327	99,440	141,758	-53,150	88,608
II	13,723	-108	13,615	15,156	-151	15,005
III	78,958	-103,022	-24,064	52,510	-77,389	-24,879
IV	11,604	-76	11,528	11,643	-151	11,492
V	12,849	-240	12,609	12,412	-262	12,150
VI	72,677	-21,376	51,301	88,672	-20,025	68,647
VII	12,867	-306	12,561	11,541	-40	11,501
VIII	2,168	-247	1,921	3,012	-803	2,209
Other Costs	4,899	-3,900	999	4,744	-	4,744
Exceptional items	-900	0	-900	-	-	-
Net operating cost	**356,612**	**-177,602**	**179,010**	**341,448**	**-151,971**	**189,477**

The department's objectives were as follows:

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

A.46 Where direct expenditure or income falls under a single objective, it is allocated wholly to that objective; expenditure and income that serves more than one objective is allocated in accordance with estimates made by relevant managers within the Department. Central expenditure not specific to individual objectives has been apportioned in proportion to directly allocated Administration costs.

A.47 Items not falling under one of the objectives include the salary of the Prime Minister and the Government Whips.

A.48 The costs allocated to objective I are net coinage costs, including the cost of capital charges on the Royal Mint (together £43.7m in 2007-08 and £44.2m in 2006-07), half of the cost of investment in the Bank of England (£6.23m in 2007-08 and £0.4m in 2006-07), and banking and gilts registration services (£8.6m in 2007-08 and £12.0m in 2006-07), as well as core Treasury policy team costs and apportioned central costs.

A.49 Objective III includes the other half of the net cost of investment in the Bank of England (£6.23m in 2007-08 and £0.4m in 2006-07).

A.50 The direct costs of the DMO (£7.7m in 2007-08 and £5.3m in 2006-07), and OGC (£14.8m in 2007-08 and £23.6m in 2006-07) are attributable to objectives I and VI respectively.

A.51 Exceptional items include the revaluation of 1Horse Guards Road, the disposal of buildings within the group, and exit costs associated with the restructure of HM Treasury and OGC.

Table A.8: HM Treasury Group Resource Allocation by Departmental Strategic Objectives (DSOs)

£ thousand	Outturrn	Plans	Projections	
	2007-08	2008-09	2009-10	2010-11
DSO1: Maintain sound public finances	**87,630**	**92,128**	**89,494**	**87,501**
DSO2 Ensure high and sustainable levels of economic growth, well being and prosperity for all	**70,689**	**74,227**	**72,347**	**70,447**
Other[8]	1,525	1,844	1,759	1,753
Exceptional Items	-11,200			
Total:	**173,825**	**168,199**	**163,600**	**159,700**

A.52 As detailed in chapter 1 the Departmental Strategic Objectives have been revised for the CSR 07 period. Table A.8 above provides an overview of planned spend. The forecasts for 2008-09, 2009-10 and 2010-11 are based on the allocation of Administration costs to DSOs in 2007-08, where managers provided estimates of their team's contribution towards individual DSOs. For the purpose of the forecast figures, it has been assumed the group's priorities will not change over the period, and will remain in line with priorities in 2007-08.

[8] The other resources not falling under the two main strategic objectives include the grants to the Parliamentary bodies (£3m) and the salary costs of the Prime Minister and the Government Whips.

PROGRESS AGAINST TREASURY GROUP'S EFFICIENCY PLANS

Introduction

A.53 As part of the 2004 Spending Review, the Treasury Group agreed a target to achieve annual efficiency savings of £18.7 million by 2007-08[6]. The plans for achieving efficiencies, the basis of measurement and the controls in place to maintain service quality are described in detail in the Efficiency Technical Note[7]. This section describes the progress to date and key future developments.

Performance Against Targets

A.54 Treasury Group has achieved, and in some instances exceeded, its efficiency targets. Table A.9 provides a breakdown of savings by Group member.

Table A.9: Treasury Group – Efficiency targets: summary of achievements[8]

£ million	2007-08 Target	Progress 30 September 2007	Progress 31 March 2007	Of which Cashable[9]	Status of savings[10]
Core Treasury	10.9	10.4	14.6	14.6	Final
OGC	3.5	3.5	3.5	2.0[11]	Final
OGCbuying.solutions[15]	1.8	2.0	2.2	1.1	Final
DMO	1.0	1.0	1.0	1.0	Final
Group Shared Services	1.5	2.0	4.2	4.0	Final
Total	**18.7**	**18.9**	**25.5**	**22.7**	

Core Treasury

A.55 The core Treasury efficiency plans focus on three workstreams against which performance is measured, as detailed below. The core Treasury had achieved £10.4 million by 30 September 2007, and £14.1 million by 31 March 2008.

Workstream: Policy, Funding and Regulation (PFR) – Directorate Budgets & Procurement
Plans: £5.3 million efficiencies by 2007-08
Progress to 30 September 2007: £6.0 million
Progress to 31 March 2008: £8.1 million

A.56 Through the SR2004 period, the Treasury's organisational structure has been realigned to fit better with policy objectives, reduce areas of overlap and increase synergies between teams, securing substantial efficiencies in staffing. The most significant of these changes was the transfer of tax policy responsibility from the revenue departments to the Treasury in 2004-05, following the O'Donnell Review.

A.57 Over the last year, the structure of the core Treasury has been further adapted and simplified to increasingly focus on delivering core objectives, in particular, to reinforce the efforts to raise productivity across the private and public sectors and to improve the management of the public finances.

A.58 To reduce non-pay costs, the Treasury has also put in place a programme of reforms to its procurement strategy, with the overall objective of providing better value for money through improved efficiency in procurement delivery (covering procurement services, purchases, processes and systems).

[9] Originally £17.7 million, raised to £18.7 million following OGCbuying.solutions increasing their contribution from £0.8 million to £1.8 million by 2007-08
[10] A revised Efficiency Technical Note was published in December 2006, and is available from http://www.hm-treasury.gov.uk/media/C/1/hmt_efficiencytechnicalnote_141206.pdf
[11] This table shows savings delivered by September 2007 for consistency with 2007 Autumn Performance Report, as well as the savings achieved by 31 March 2008.
[12] Cashable savings are those that reduce the costs associated with a defined activity or output, thereby releasing money to be utilised by other priorities in the department.
[13] Efficiency savings can be classified as Preliminary, Interim or Final.
[14] The cashable savings reported in the 2007 Autumn Performance Report for OGC was £3.0 million. Following a review of Treasury Group's Efficiency Programme this amount has been reduced to £2.0 million.
[15] OGCbuying.solutions is an Executive Agency of the OGC, with Trading Fund status. As part of the Treasury Group it has its own efficiency target and is included in the table above. The budget and accounting regimes exclude trading funds from department results; hence the results of OGCbs are not consolidated in the figures given earlier in this chapter.

Workstream: Policy, Funding and Regulation (PFR) – Strategic Reserve
Plans: £4.0 million efficiencies by 2007-08
Progress to 30 September 2007: £2.0 million
Progress to 31 March 2008: £4.0 million

A.59 The efficiency gains for the Strategic Reserve represent the cost in each financial year of new policy priorities that have been funded from within the Treasury Group's SR2004 funding allocation, enabled by efficiency savings. Over SR2004 the Strategic Reserve has been used to fund the cross Whitehall financial management improvement programme; work with banks and building societies to enable the introduction of a UK unclaimed assets scheme; and the cost of the UK's presidency of the Financial Action Task Force on Money Laundering and Terrorist Financing.

Workstream: Programme
Plans: £1.6 million efficiencies by 2007-08
Progress to 30 September 2007: £2.4 million
Progress to 31 March 2008: £2.5 million

A.60 The main element within the Treasury's programme workstream is the purchase of UK coinage from the Royal Mint. The Treasury has supported the Mint's Business Improvement Programme, which was implemented in 2006 and is already producing savings in the Mint's production and overhead costs. The Treasury has also worked with the Mint to identify improvements in the arrangements for the production and distribution of UK circulating coinage. The Treasury has agreed a new Service Level Agreement with the Royal Mint, which contains improvements that have led to a real terms reduction in the manufacturing price of coinage.

Office of Government Commerce

A.61 OGC has already met its £3.5 million savings contribution. Total savings to 31 March 2008 were £3.5 million. The three main supporting workstreams of the OGC's Efficiency Programme are Procurement, Corporate Services and Productive Time. To date, OGC has achieved procurement savings of £1.0 million through the use of smarter procurement methods, including the use of shared contracts. In corporate services, OGC has achieved savings of £1.0 million through streamlining central functions. OGC has also achieved savings of £1.5 million on productive time through better use of consultants, and other initiatives.

OGCbuying.solutions

A.62 As at the end March 2008, OGCbuying.solutions had secured £2.2 million of efficiency savings through:

- £1.2 million of productive time savings through an improvement in the ratio of internal costs to public sector value for money improvements;
- £0.6 million of procurement savings through the reduction in the cost of delivery of some of its support services; and
- £0.4 million of relocation savings.

A.63 With all actions completed by March 2007, OGCbuying.solutions has since been concentrating on the growth in public sector value for money improvements, and are on track for £650m of such improvements for 2007-08.

UK Debt Management Office

A.64 As reported in the 2006-07 Annual Report and Accounts for Treasury Group, the DMO had delivered its £1.0 million contribution to the overall saving target by March 2007. The efficiencies were achieved as follows:

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

Group Shared Services

A.65 The previously separate corporate services of the Group bodies now participating in Group Shared Services had achieved £2.0 million as at 30 September 2007 and £4.2 million as at 31 March 2008.

A.66 During September and October 2007, OGC's London based staff relocated from Trevelyan House to 1 Horse Guards Road (1HGR). The relocation will enable the lease on the Trevelyan House offices to be reassigned, saving the Group around £3.0 million a year in running costs, as well as facilitating a closer working relationship between OGC and HM Treasury. Co-location also provides the basis for further efficiencies, which include savings in network and IS support, facilities management costs and the exploration of other potentially shared functions.

Headcount and Relocation Targets

A.67 To support the delivery of its efficiency plans, the Treasury Group had a target to reduce its headcount by 150 full-time equivalent staff by 31 March 2008, from the 31 March 2004 baseline. To enable the UK Debt Management Office and Office of Government Commerce achieve their remits, Core Treasury agreed to deliver the Group's headcount reduction target. Table A.10 provides a breakdown of reductions by Group member.

Table A.10: Treasury Group – Headcount Reductions: summary of achievements[16]

Full Time Equivalents	2007-08 Target	Progress 30 September 2007	Progress 31 March 2007
Core Treasury	150	205	235
OGC	0	51	68
DMO	0	12	13
Total	**150**	**268**	**316**

A.68 In response to the Lyons review, the Treasury Group committed to relocating 26.5 posts out of London by 2007-08, and this commitment has been exceeded:

- OGCbuying.solutions relocated all of its planned 22 posts (15 to Liverpool and 7 to Norwich);
- OGC transferred 5 non-Group Shared Services posts from London to Norwich; and
- Group Shared Services relocated 10 posts from London to Norwich (5 from Core Treasury and 5 from OGC).

Savings from April 2008

A.69 In response to its Comprehensive Spending Review (CSR) settlement, Treasury Group published its Value for Money Delivery Agreement in December 2007[17]. The Delivery Agreement sets out how Treasury Group will deliver Value for Money over the CSR period.

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[16] This table shows reductions delivered by September 2007 for consistency with 2007 Autumn Performance Report, as well as the headcount reductions achieved by 31 March 2008.

[17] available from http://www.hm-treasury.gov.uk/about/departmental_reports/vfm_delivery_agreement.cfm

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