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**H M TREASURY**

**RESOURCE ACCOUNTS 2001-02**

**29 January 2003**

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**ANNUAL REPORT AND OPERATING AND FINANCIAL REVIEW*****Scope of these accounts***

1. The aim and objectives of the Treasury, set in the 2000 Spending Review, are set out in Box 1.

**Box 1: H M Treasury's aim and objectives**

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

**Objectives:**

1. maintaining a stable macroeconomic framework with low inflation;
2. maintaining sound public finances in accordance with the Code for Fiscal Stability;
3. improving the quality and the cost effectiveness of public services;
4. increasing the productivity of the economy;
5. expanding economic and employment opportunities for all;
6. promoting a fair and efficient tax and benefit system with incentives to work, save and invest;
7. achieving a high standard of regularity, propriety and accountability in public finance;
8. securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;
9. promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.

2. Targets have been set relating to each of these objectives. Information about performance against those targets is set out in the Treasury's autumn performance report, published in parallel with these accounts.
3. As the UK's Finance Ministry, H M Treasury is responsible for the finance function of Government as a whole, as well as for its own business as a Department. These accounts relate only to Treasury's own business. They include the resources engaged in managing the Government's overall finances, but not the substantive transactions managed. These are accounted for separately – see note 1.2.
4. These accounts have been prepared under a Direction issued by the Treasury Officer of Accounts in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This Report draws on the Accounting Standards Board's guidance on Operating and Financial Reviews to the extent that it is meaningful and appropriate to the public sector context.
5. The Comptroller and Auditor General is the auditor of HM Treasury's accounts.

### ***Organisational structure***

6. The Treasury has three distinct operating units:
  - **The core of the Department.** Advice to Ministers on management of the core Treasury comes from a Treasury Management Board which comprises the Permanent Secretary, the six Managing Directors of the core Treasury, the OGC Chief Executive and a non-executive Director.
  - **The United Kingdom Debt Management Office (DMO),** which is the core Treasury's only Executive Agency. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who is supported by the Financial Secretary. The DMO's Chief Executive is an additional Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with its Framework Document.
  - **The Office of Government Commerce (OGC).** OGC is an independent office of the Treasury with its own Chief Executive (at Permanent Secretary level) and Executive Board. OGC's trading arm (OGCbuying.solutions) is an Executive Agency and Trading Fund financed from income from its customers. As such it publishes its own accounts (HC 1021 11 July 2002); it is included here because its Public Dividend Capital and dividend payment form part of these accounts.
7. Each of these business units has its own Audit Committee. Their independent members were Christopher Swinson (core Treasury); James Barclay and Colin Price (DMO); and Colin Thwaite, Brian Glicksman, David Fisher and Trevor Woolley (OGC).
8. Several of the analyses in the accounts below include separate figures for the OGC and HMT (ie the rest of the Treasury including the DMO). Figures for the DMO alone are reported in its separately-published accounts (HC 937).

### ***The core Treasury***

#### *Activities*

9. The core Treasury's main activities are:
  - the provision of advice to Ministers on economic and financial policy, and the acquisition of the information, knowledge and expertise needed to do so effectively;
  - the communication and implementation of that policy - for instance by managing the central finances of Government, preparing legislation, exercising its powers of financial control within Government, procurement of the supply of coinage and influencing economic agents.
10. Much of this work is undertaken in partnership with other bodies.
11. During 2001-02 the Treasury had lead policy responsibility for the following organisations:
  - OGCbuying.solutions, an executive agency of the OGC with trading fund status;
  - The Statistics Commission, a non-departmental public body;
  - The Financial Services Authority, an independent company limited by guarantee. (Changes to the financing of the authority are discussed at paragraph 14 below);

- Registry of Friendly Societies (wound up March 2002);
- Policyholders' Protection Board (wound up November 2001);
- Insurance Brokers' Registration Council (wound up April 2001);
- Financial Services Tribunal;
- Public Services Productivity Panel (an advisory NDPB).

The Treasury also:

- has statutory responsibility for the the Financial Services Authority's regulation of the financial sector;
- under the Bank of England Act 1946 is the sole shareholder in the Bank;
- is the sole holder of public dividend capital in the Royal Mint, a Government Department with Trading Fund status;
- holds 44.5% of the share capital of Partnerships UK, a public private partnership (PPP) classified to the private sector whose mission is to promote PPPs; and
- is responsible for Troika and Pool Re arrangements for the reinsurance of risks arising from terrorist attacks.

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

- the payment of pensions to former Members of the European Parliament, and salaries of current MEPs (the costs of which are outside the boundary of HMT Resource Accounts);
- expenditure associated with the award of Honours and Dignities;
- grant support to certain Parliamentary bodies: The Inter-Parliamentary Union; The Commonwealth Parliamentary Association; The British American Parliamentary Group; and The British-Irish Inter-Parliamentary Body.

### *Results in 2001-02*

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

- in its Departmental Report (Cm 5425 published in June 2002);
- in the Economic and Fiscal Strategy Report and Financial Statement and Budget Report (HC 592, April 2002); and
- on the Treasury website ([www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)).

14. During 2001-02, the Treasury expanded its policy-making capacity by increasing its staffing as shown in Note 2 to these Accounts. It continued to improve the quality of its service to Ministers through its change programme, which focusses on professional people, professional tools and professional

management. The increase in staff was the main driver of the increase in HMT administration costs. Other developments with important financial impacts included:

- Several reports on policy issues led by external appointees but staffed and financed by the Treasury. These included the Sandler review of the long-term retail savings market, the Roberts report on the supply of scientists and engineers in the UK, the Wanless review of long term health trends and the Sharman Review of Audit and Accountability for Central Government;
- new arrangements for the collection of fees for insurance supervision, introduced by the Financial Services and Markets Act 2000. Until December 2001 these were paid to the Treasury, which in turn paid for the FSA's services (including a small element not financed from fee income). From that date insurance companies' fees covering FSA's full costs became payable direct to the FSA;
- the formation of Troika Insurance Company Ltd, to provide reinsurance in respect of airlines' terrorism risks for a limited period following the terrorist attacks on the USA on 11 September 2001. The Treasury provided loan notes totalling £5 million to provide the company with regulatory capital, and incurred further legal and other expenses in establishing the company;
- income of £6.8m from surpluses on Pool Re, a company providing reinsurance against terrorism losses on buildings in the UK. The Treasury receives such surpluses in return for bearing any risks which cannot be met by Pool Re itself. Income from this source in 2000-01 was an exceptional £204 million because in that year the fund had for the first time exceeded its target level;
- a reduction from 2.1 billion to 1.9 billion in the number of circulation coins demanded by the banks, leading to a reduction in the associated spending;
- the launch of an independent inquiry into the situation arising at the Equitable Life Assurance Society. This inquiry is financed by the Treasury. Its costs in 2001-02 totalled £280k.

#### *Events since 31 March 2002*

15. The Permanent Secretary and Principal Accounting Officer, Sir Andrew Turnbull, left the Treasury in July 2002 to take up his appointment as Head of the Home Civil Service and Secretary to the Cabinet. He was replaced by Gus O'Donnell.
16. On 15 July the Treasury published the results of the 2002 Spending Review in two White Papers (Cm 5570 and 5571, also available on the Treasury website). These included spending plans and a new Aim and Objectives for the Treasury covering the years 2003-06.
17. In July and August 2002 the Treasury's headquarters moved to One Horse Guards Road, London SW1. This wholly refurbished office is at the West end of the Treasury's former building Government Offices, Great George Street (GOGGS). It will bring together on one site the staff previously located in the East end of GOGGS and Allington Towers, both in London SW1. Responsibility for the lease on Allington Towers has been transferred to the Home Office. One Horse Guards Road has been refurbished under a Private Finance Initiative contract. Further details are given in the post balance sheet events note to these Accounts.

#### *The future*

18. The core Treasury plans to maintain broadly stable staff numbers in its refurbished offices. Coinage spending will continue to be determined by demand from the banks.
19. The Treasury's human capital, whilst not shown on the balance sheet, is of immense importance to its activities. The Department will continue to develop its business by investing in human capital and operational assets. No other significant new capital investments are planned.
20. The Treasury's approach to managing risk is described in the Statement of Internal Control below. Risks to the Department's objectives include some relating to the resources employed to deliver them; and others relating to external circumstances in the economy and public finances.

### ***Debt Management Office***

#### *Activities*

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

#### *Results in 2001-02*

22. In 2001-02 the DMO met both its debt and cash management remits as directed by HM Treasury, as well as meeting most of its objectives and published targets in full. Further details are available in the DMO's Annual Report and Accounts (HC 937, also available on DMO's website [www.dmo.gov.uk](http://www.dmo.gov.uk)).
23. The increase in DMO's net operating costs for 2001-02 reflects:
  - Additional accommodation costs, following relocation to new premises in Eastcheap Court, the DMO having outgrown its office in Cheapside House. Relocation also added significantly to the DMO's capital expenditure in 2001-02 by comparison with the previous year;
  - The expansion of services undertaken in the financial year – most notably the services provided to National Savings & Investments following the introduction of a Guaranteed Equity Bond, and the introduction of the Local Authority Deposit Facility which began as a pilot scheme in April 2002;
  - Additional staffing requirements both to expand the services provided by the DMO and to develop further the risk management and control environment.

#### *Events since 31 March 2002*

24. The National Debt Office (NDO) and the Public Works Loan Board (PWLB) were integrated with the DMO and their staff relocated to the DMO's premises from 1 July 2002. From 1 July 2002 the activities of NDO will be carried out under the name of the Commissioners for the Reduction of the National Debt (CRND).

#### *The future*

25. Future developments will include enhanced capability for analysis of market risk to deliver improved assessment of the risk/reward trade-off for proposed strategies and policies. Additionally, this is

expected to have a wider application by providing a flexible platform to support consolidation of the wider Government balance sheet. Other significant areas of investment include projects to improve the DMO's IT security and disaster recovery capabilities.

26. The main risks faced by the DMO in its cash and debt management operations are credit risk, market risk and operational risk. For the DMO, credit risk is the risk of financial loss due to default of payment by a borrower or issuer; market risk can be summarised as the risk of unanticipated changes occurring in the financial environment (levels of interest rate or market liquidity, for example) causing loss of asset value or hindering the DMO's ability to achieve value for money in its operations; operational risk is represented by the potential for procedural or administrative errors to cause financial loss or damage to the professional reputation of the DMO. These risks, and others, are addressed by the DMO in an integrated way as outlined in the Statement on Internal Control included in the DMO Annual Report and Accounts.

### **Office of Government Commerce**

#### *Activities*

27. OGC was established on 1 April 2000 to modernise procurement in central civil government and deliver substantial value for money improvements. It incorporated three former Cabinet Office agencies – The Property Advisers to the Civil Estate (PACE), the Buying Agency (TBA), and the Central Computer and Telecommunications Agency (CCTA), plus the former Treasury units concerned with procurement practice and development and the Private Finance Initiative and a legal team staffed by the Treasury Solicitor's Office.

#### *Results in 2001-02*

28. OGC's primary target is to work with central civil government to deliver £1 billion of value for money gains from commercial activities by the end of 2002-03 (target 10 of the Treasury's PSA 2001-04). More than a third of this target was achieved in 2001-02 - the first year - through the efforts of OGC and departments, with £433 million of gains reported.
29. OGC is engaged in a number of activities to modernise and promote best procurement practice based on a collaborative approach with Departments. These include:
- Helping departments develop their skills for successful delivery;
  - Setting standards for departments' own good practice;
  - Ensuring the success of large, novel and/or complex projects, particularly through the Gateway process;
  - Working with suppliers to achieve value for money;
  - Helping departments to achieve better value for money by sharing and exchanging knowledge about government commercial activity;
  - Supporting innovation through informed use of new technologies;

- Improving value for money across the whole of government, including making aggregation deals more widely available where this represents added value.

30. Further information can be found in:

- The Departmental Report (Cm 5425 published in June 2002);
- The OGC website ([www.ogc.gov.uk](http://www.ogc.gov.uk))

### *The future*

31. During 2002-03 OGC will build on achievements to date, for example Gateways, standardisation in PFI projects, more best practice guidance, widening the breadth of collaborative opportunities, and the continued rationalisation of inherited advice and guidance. It will work with its customers to ensure that best practices are truly embedded in their departments, agencies and NDPBs. OGC will also continue the process of developing its strategy for the medium term (for 2003-04 to 2005-06). The strategy is intended to underpin the delivery of its agreed seven key priorities and new more challenging PSA target.

## **Management**

### *Ministers and senior officers*

32. Note 2C identifies the Treasury's Ministers and senior officials during 2001-02.

### *Appointment of Permanent Secretary and Management Board*

33. The Permanent Secretary was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Chancellor of the Exchequer. The appointment is for an indefinite term under the terms of the Senior Civil Service contract. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

34. Other members of the Management Board were appointed by the Permanent Secretary. These appointments are for an indefinite term except for Sir Andrew Likierman and Peter Gershon who have a fixed term contract under the terms of the standard Senior Civil Service contract. The rules for termination are set out in chapter 11 of the Civil Service Management Code.

### *Remuneration of Ministers and Board Members*

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

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

37. For the remaining members of the Management Board remuneration is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

38. Further details on remuneration are set out in note 2 to these accounts.

#### *Pensions and Early Departure Costs*

39. Employees of HM Treasury are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. For the year ended 31 March 2002 contributions were paid to the Paymaster General at a rate of 12% to 18.5% (according to grade) of salaries determined by the Government Actuary and advised by the Treasury.

#### *Diversity and Equal Opportunities*

40. The Treasury aims to be a diverse organisation, and has a variety of actions and policies in place to that end. All the Treasury's business units are equal opportunities employers. Policies are in place to guard against discrimination and aim to ensure that there are no unfair or illegal discrimination barriers to employment and advancement in the Department.

41. The Treasury equal opportunities policy states that there shall be no discrimination against staff on grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, sexual orientation, age or background. Employment and promotion are solely on merit. Staff who have alternative working patterns are assessed on the same basis as those working full time.

42. Reasonable adjustments are made to meet the needs of prospective and existing employees who have disabilities. An active Disability Advisory Group works with management to ensure that the needs of people with disabilities are taken into account in all internal processes and procedures.

#### *Payment of Suppliers*

43. In accordance with the CBI Prompt Payers Code / Better Payment Practice Code and general Treasury guidance, the Department is required to pay a supplier's invoice that is 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 2001-02 the Treasury achieved a performance of 98.7 per cent against a target of 100 per cent. Over the same period, the OGC achieved a performance of 94 per cent due to alignment issues experienced by the OGC in the early part of 2000-01 while it was integrating the processes from its former constituents. These issues have now been resolved with a concomitant improvement in the OGC's prompt payment record.

#### *Public Private Partnership*

44. Partnerships UK is a public private partnership (PPP) classified to the private sector. The company was launched by Andrew Smith (then Chief Secretary to the Treasury) in June 2000 as a company limited by shares wholly owned by the government. In March 2001 it became a fully-fledged public private partnership following a successful capital raising exercise carried out by HM Treasury. 51 percent of the share capital of Partnerships UK is held by a range of private sector organisations. HM Treasury and the Scottish Ministers hold the remaining 49 per cent.

*Gus O'Donnell*  
Permanent Secretary  
22<sup>nd</sup> November 2002

## STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

The Department has prepared resource accounts for the year ended 31 March 2002 in accordance with the Resource Accounting Manual, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

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

The Permanent Secretary and Principal Accounting Officer, Sir Andrew Turnbull, left the Treasury in July 2002 to take up his appointment as Head of the Home Civil Service and Secretary to the Cabinet. I was appointed to succeed him as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

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

- (i) observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- (ii) make judgements and estimates on a reasonable basis;
- (iii) state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
- (iv) prepare the accounts on a going concern basis.

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

The responsibilities of an Accounting Officer (including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding the Department's assets) are set out in the Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

Provision for non-operating appropriations in aid was increased by the Winter Supplementary Estimate, Cm 5323 of session 2001-02. This increase should have been, but was not, included in the Appropriation Act 2002 that authorised the Supplementary Estimate. By agreement with the Treasury Officer of Accounts these accounts have nonetheless been prepared to reflect the changed provision on the basis that statutory authority is in the process of being sought.

*Gus O'Donnell*  
Permanent Secretary  
22<sup>nd</sup> November 2002

## STATEMENT ON INTERNAL CONTROL

This statement describes internal controls in respect of the Treasury's own business, as defined in paragraphs 3 and 6 of the Operating and Financial Review.

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the Treasury's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. Immediate responsibility for the systems of internal control in the Office of Government Commerce and in the UK Debt Management Office lies with their respective Chief Executives as Additional Accounting Officers. The division of responsibility between us is defined by Government Accounting (annex 4.1) and by a separate Memorandum which we have agreed.

The system of internal control is informed by an ongoing process designed to identify the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The system is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

This is an interim statement in line with guidance issued by the Treasury Officer of Accounts. It recognises progress already made and anticipates planned work to further improve and embed controls. A full statement on Internal Control will be issued at the end of 2002/2003.

### Controls in 2001-02

Existing internal controls within core Treasury include:

#### ***Business Planning***

An annual business planning and budgeting process, linked to staff planning, which is underpinned by consultation with staff and other stakeholders. The process is informed by the management board's analysis of the department's strategic priorities and by the regular performance reviews, which I hold with Managing Directors and their teams.

#### ***Departmental Management***

Regular bi-monthly meetings of the Treasury Management Board, chaired by me and attended by the six Managing Directors, the Chief Executive of the Office of Government Commerce and a non-executive member. The management board considers strategic issues relating to the direction and control of the business. The management board is supported by two high-level groups, which consider human resources and information strategy. In addition, I have created a Strategy Unit to support the management board in ensuring that business planning, business continuity planning, risk management, and monitoring and reporting are embedded across the Department.

#### ***Risk Management***

Measures have been taken to help embed risk awareness in the business planning process and to identify, analyse, allocate ownership for and evaluate risks. The management board has identified the key risks facing the Department and will review these regularly. Business continuity arrangements are developed and continuously refreshed.

#### ***Monitoring and Reporting Frameworks***

There is a framework of regular management information reviewed by the management board, covering finance and staffing and performance against departmental targets.

#### ***Systems of Responsibility and Accountability***

The respective responsibilities of the other Additional Accounting Officers in the Treasury and the Principal Establishments and Finance Officer are clearly defined. I have issued written financial delegations to Managing Directors.

#### ***Resources and staffing***

There are systems in place for the control of resources, for good management of staff and for ensuring compliance with specific regulations or procedures laid down by central departments or by statute. The Department has strategic management and finance functions employing appropriately qualified staff.

***Audit Committee and Internal Audit***

The department has an Audit Committee with two non-executive members to give an independent perspective. The Committee endorses the annual work programme of the Internal Audit team. The team operates to standards defined in the Government Internal Audit Manual and submits reports on governance and risk management, including the head of the team's independent opinion on the adequacy and effectiveness of the Department's system of internal control, together with recommendations for improvement.

Similar arrangements exist within OGC and DMO respectively.

**Plans for 2002-03**

In addition to the controls mentioned above, in the coming year I and the OGC and DMO Accounting Officers have plans for:

- Further development of the framework of risk awareness, management, monitoring and reporting;
- Continuing to strengthen internal accountability arrangements;
- Continuing to develop the leadership skills of our managers;
- Further improving management information;
- Further improving controls over OGC property disposals;
- Developing and implementing a new procurement strategy and procedures at OGC; and
- Further strengthening the role and effectiveness of the Audit Committees.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the system is informed by:

- The work of the senior managers within the department who have responsibility for the development and maintenance of the internal control framework;
- The Statement on Internal Control given by the DMO Accounting Officer in the DMO Report and Accounts (HC 937), and a shadow Statement on Internal Control given to me by the OGC Accounting Officer;
- The Internal Audit team; and
- Comments made by the external auditors in their Memorandum of Audit Completion and other reports.

*Gus O'Donnell*  
Permanent Secretary  
22<sup>nd</sup> November 2002

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

I certify that I have audited the financial statements on pages 15 to 49 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 22 to 24.

**Respective responsibilities of the Accounting Officer and Auditor**

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury Officer of Accounts, and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on pages 11 to 12 reflects the Department's compliance with Treasury Officer of Accounts' guidance entitled "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements specified by the Treasury Officer of Accounts, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

**Basis of audit opinion**

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In this connection I have noted and taken account of the final paragraph of the Statement of Accounting Officer Responsibilities on page 10.

In forming my opinion I have also evaluated the overall adequacy of the presentation of the information in the financial statements. My opinion takes into account HM Treasury's view, as stated in note 1.2 on page 22, that investments with international financial institutions should not be recognised in these financial statements but disclosed in separate trust statements of the Department.

**Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of HM Treasury at 31 March 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury Officer of Accounts; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

National Audit Office  
157 -197 Buckingham Palace Road  
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26 November 2002

**The maintenance and integrity of HM Treasury's website is the responsibility of the Accounting Officer; work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.**

## SCHEDULE 1

**Summary of Resource Outturn**  
for the year ended 31 March 2002

	Estimate			Outturn			Net Total Outturn compared with Estimate saving/ (excess) £000	Prior Year Outturn £000
	Gross expend. £000	A-in-A £000	Net total £000	Gross expend. £000	A-in-A £000	Net total £000		
	Request for Resources 1 (Notes 5 and 8)	221,051	(16,641)	204,410	201,176	(12,302)		
Request for Resources 2 (Notes 5 and 8)	40,968	(502)	40,466	40,179	(258)	39,921	545	42,208
Request for Resources 3 (Notes 5 and 8)	88,486	(29,535)	58,951	28,765	(22,560)	6,205	52,746	14,701
<b>Total Resources</b>	<b>350,505</b>	<b>(46,678)</b>	<b>303,827</b>	<b>270,120</b>	<b>(35,120)</b>	<b>235,000</b>	<b>68,827</b>	<b>274,049</b>
Non-Operating Cost A-in-A			2,231				2,231	19
<b>Net Cash Requirement</b>			<b>219,215</b>			<b>170,281</b>	<b>48,934</b>	<b>182,523</b>

Reconciliation of resources to net cash requirement	Note	Estimate	OGC	HMT	Net total	Net Total
		net total £000	£000	£000	Outturn £000	Outturn compared with Estimate saving/ (excess) £000
<b>Total resources</b>		<b>303,827</b>	<b>6,205</b>	<b>228,795</b>	<b>235,000</b>	<b>68,827</b>
<b>Capital:</b>						
Acquisition of fixed assets and freehold property	11, 12 13 & 15	18,959	1,101	10,848	11,949	7,010
<b>Non-operating cost A-in-A:</b>						
Disposal of fixed assets and freehold property	11, 12, 13 & 15	(2,231)	(42,003)	(1,583)	(43,586)	41,355
<b>Accrual adjustments:</b>						
Non-cash items	3 & 4	(124,340)	29,568	(123,395)	(93,827)	(30,513)
Changes in working capital other than cash	14	750	(4,069)	(224,390)	(228,459)	229,209
Intra departmental consolidation adjustments to working capital			(3,558)	3,558		
Use of provision	20	22,250	16,443	1,139	17,582	4,668
Excess cash to be surrendered to the Consolidated Fund				271,622	271,622	(271,622)
<b>Net cash requirement (Schedule 4)</b>		<b>219,215</b>	<b>3,687</b>	<b>166,594</b>	<b>170,281</b>	<b>48,934</b>

**Explanation of variance between Estimate and Outturn (net total resources):****Request for Resources 1**

The underspend of £15,536k can be mainly attributed to the rephasing of some programme projects to start in 2002-03 rather than 2001-02.

**Request for Resources 2**

By its nature coinage expenditure is volatile, as it is dependent on variations on the banks' demand for coins during the course of the year. The underspend of £545k is a marked improvement on the previous year's underspend of £4,420k.

**Request for Resources 3**

The variance between estimate and outturn comprises three elements. Administration costs are 26% below estimate as a number of activities and projects proceeded at a slower pace than was originally anticipated and there was no requirement to utilise the Departmental Unallocated Provision during the year. Administration income was 33% below estimate due to lower than expected revenues from consultancy activity.

The programme cost underspend (160%) is mainly due to the cancellation of a major disposal project, and the inter/intra- departmental transfers of vacant estate leasehold properties for which there is no cash payment by OGC to offset the reduction in the leasehold provision. At the balance sheet date an imminent transfer of three such properties without a corresponding cash payment by OGC resulted in a significant decrease in the provision, and the negative expenditure outturn figure of £16,517k in the operating cost statement (OCS) (see note 4.2).

**Explanation of the variation between Estimate net cash and requirement and outturn (net cash requirement):****Request for Resources 1**

A cash receipt of £203,972k at the beginning of 2001/02 relating to Pool Re caused a reduction in working capital not reflected in the estimates.

**Request for Resources 3**

A cash receipt of £40m towards the end of the financial year had been anticipated to fall into 2002/03 but was received early.

**Analysis of income payable to the Consolidated Fund**

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

	Forecast 2001/02		Outturn 2001/02	
	Income Receipts £000	Income Receipts £000	Income Receipts £000	Income Receipts £000
Operating income and receipts – excess A-in-A	46,175	45,865	12,559	12,559
Non-operating income and receipts – excess A-in-A	400			
Other operating income and receipts not classified as A in A			65,916	279,655
Other non-operating income and receipts not classified as A in A	1,515			
Other amounts collectable on behalf of the Consolidated Fund				
<b>Total</b>	<b>48,090</b>	<b>45,865</b>	<b>78,475</b>	<b>292,214</b>

No forecast was made for income payable to the Consolidated Fund. Further analysis of income is shown in note 5 to the accounts.

**Actual outturn – resources:**

**Request for Resources 1:** Actual amount net resources outturn £188,873,917.86. Actual amount of savings in resources over Estimate £15,536,082.14.

**Request for Resources 2:** Actual amount net resources outturn £39,920,448.17. Actual amount of savings in resources over Estimate £545,551.83.

**Request for Resources 3:** Actual amount net resources outturn £6,205,099.26. Actual amount of savings in resources over Estimate £52,745,900.74.

**Actual outturn – cash:**

Net cash requirement: Outturn net requirement £170,281,056.48 which is £48,933,943.52 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund were £292,214,213.82

*The notes on pages 22 to 49 form part of these accounts.*

## SCHEDULE 2

## Operating Cost Statement

for the year ended 31 March 2002

	Note	2001/2002		2000/2001	
		OGC £000	HMT £000	Total £000	Total £000
<b>Administration costs</b>					
Staff costs	2	16,394	43,803	60,197	55,417
Other administration costs	3	28,888	32,855	61,743	54,967
<b>Gross administration costs</b>		<b>45,282</b>	<b>76,658</b>	<b>121,940</b>	<b>110,384</b>
Operating income	5	(14,644)	(2,772)	(17,416)	(22,742)
<b>Net administration costs</b>		<b>30,638</b>	<b>73,886</b>	<b>104,524</b>	<b>87,642</b>
<b>Programme costs</b>					
<b>Request for Resources 1: HM Treasury</b>					
Expenditure	4		124,518	124,518	132,900
Loss on disposal of investments (2000-01 exceptional item)	4				27,754
Less: income – Pool Re (2000-01 exceptional item)	5.1		(6,777)	(6,777)	(203,972)
Less: income – other	5		(71,159)	(71,159)	(85,795)
			<b>46,582</b>	<b>46,582</b>	<b>(129,113)</b>
<b>Request for Resources 2: UK Coinage</b>					
Expenditure	4		40,179	40,179	42,825
Less: income	5		(258)	(258)	(618)
			<b>39,921</b>	<b>39,921</b>	<b>42,207</b>
<b>Request for Resources 3: OGC</b>					
Expenditure	4	(16,517)		(16,517)	23,987
Less: income	5	(17,985)		(17,985)	(35,522)
		<b>(34,502)</b>		<b>(34,502)</b>	<b>(11,535)</b>
Bank of England Services	4		12,171	12,171	11,732
<b>Total net programme (income) / costs</b>		<b>(34,502)</b>	<b>98,674</b>	<b>64,172</b>	<b>(86,709)</b>
<b>Total net operating costs</b>		<b>(3,864)</b>	<b>172,560</b>	<b>168,696</b>	<b>933</b>
<b>Total net resource outturn</b>	7	<b>6,205</b>	<b>228,795</b>	<b>235,000</b>	<b>274,049</b>

Income and expenditure are derived from continuing operations, except for income and expenditure related to insurance supervision, which is a discontinued operation as described in notes 4.1 and 5.1.

## Statement of Recognised Gains and Losses

for the year ended 31 March 2002

	2001/2002		2000/2001	
	OGC £000	HMT £000	Total £000	Total £000
Net gain on revaluation of tangible fixed assets	361	1,349	1,710	927
Net gain on revaluation of investments		42,541	42,541	148,371
Net gain on revaluation of surplus freehold property	35,541		35,541	14,891
<b>Total recognised gains for the financial year</b>	<b>35,902</b>	<b>43,890</b>	<b>79,792</b>	<b>164,189</b>

The notes on pages 22 to 49 form part of these accounts.

## SCHEDULE 3

## Balance Sheet

as at 31 March 2002

	Note	2002		Total £000	2001 Total £000
		OGC £000	HMT £000		
<b>Fixed assets</b>					
Intangible assets	11	456	1,028	1,484	1,216
Tangible assets	12	18,985	38,206	57,191	56,308
Investments	13	350	1,551,630	1,551,980	1,512,260
<b>Total fixed assets</b>		<b>19,791</b>	<b>1,590,864</b>	<b>1,610,655</b>	<b>1,569,784</b>
<b>Current assets</b>					
Surplus freehold property	15	75,831		75,831	82,205
Stocks	16	118	1,838	1,956	2,084
Debtors due within one year	17	10,046	67,281	77,327	295,518
Debtors due after more than one year	17	485	9,245	9,730	11,273
Investments	13		20,707	20,707	15,084
Cash at bank and in hand	18	54,846	19,030	73,876	34,541
<b>Total current assets</b>		<b>141,326</b>	<b>118,101</b>	<b>259,427</b>	<b>440,705</b>
<b>Creditors: amounts falling due within one year</b>	19	<b>(63,620)</b>	<b>(103,658)</b>	<b>(167,278)</b>	<b>(336,517)</b>
<b>Net current assets</b>		<b>77,706</b>	<b>14,443</b>	<b>92,149</b>	<b>104,188</b>
<b>Total assets less current liabilities</b>		<b>97,497</b>	<b>1,605,307</b>	<b>1,702,804</b>	<b>1,673,972</b>
Provisions for liabilities and charges	20	(45,976)	(2,256)	(48,232)	(99,323)
		<b>51,521</b>	<b>1,603,051</b>	<b>1,654,572</b>	<b>1,574,649</b>
<b>Taxpayers' equity</b>					
Revaluation reserve	21	50,585	250,231	300,816	245,124
General fund	26	936	1,352,820	1,353,756	1,329,525
		<b>51,521</b>	<b>1,603,051</b>	<b>1,654,572</b>	<b>1,574,649</b>

Gus O'Donnell  
Permanent Secretary  
22<sup>nd</sup> November 2002

The notes on pages 22 to 49 form part of these accounts.

## SCHEDULE 4

## Cash Flow Statement

for the year ended 31 March 2002

Note	2001/2002		2000/2001	
	OGC £000	HMT £000	Total £000	Total £000
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(34,520)</b>	<b>182,699</b>	148,179	<b>(85,079)</b>
Cash inflow/(outflow) from capital expenditure and financial investment	40,902	(9,265)	31,637	84,605
Receipts due to the Consolidated Fund which are outside the scope of the department's activities				4,646
Payments of amounts due to the Consolidated Fund	(19,719)	(275,096)	(294,815)	(230,009)
Financing	52,900	101,434	154,334	177,061
<b>Increase/(decrease) in cash in the period</b>	<b>18 39,563</b>	<b>(228)</b>	39,335	<b>(48,776)</b>

**Notes to the cash flow statement****Reconciliation of operating cost to operating cash flows**

Net operating cost (Schedule 2)		(3,864)	172,560	168,696	933
Adjust for non-cash transactions	3, 4	29,568	(135,566)	(105,998)	(153,117)
Adjust for movements in working capital other than cash	14	(4,069)	(224,390)	(228,459)	218,409
Intra departmental consolidation adjustments		(3,558)	3,558		
Use of provisions	20	16,443	1,139	17,582	18,854
<b>Net cash outflow/(inflow) from operating activities</b>		<b>34,520</b>	<b>(182,699)</b>	(148,179)	<b>85,079</b>

**Analysis of capital expenditure and financial investment**

Investments additions	13		5,000	5,000	45,000
Surplus freehold property additions	15	74		74	
Intangible fixed assets additions	11	214	794	1,008	875
Tangible fixed assets additions	12	813	5,054	5,867	5,349
Proceeds of disposals of investments	13		(1,500)	(1,500)	(127,632)
Proceeds of disposals of other fixed assets		(14)	(83)	(97)	(35)
Proceeds of disposal of surplus freehold property	15	(41,989)		(41,989)	(8,162)
<b>Net cash outflow/(inflow) for capital expenditure and financial investment</b>		<b>(40,902)</b>	<b>9,265</b>	<b>(31,637)</b>	<b>(84,605)</b>

**Analysis of financing**

From the Consolidated Fund (Supply): current year		52,900	101,434	154,334	180,661
Payments to the Contingencies Fund					(3,600)
<b>Net financing</b>		<b>52,900</b>	<b>101,434</b>	<b>154,334</b>	<b>177,061</b>
(Increase)/decrease in cash		(39,563)	228	(39,335)	48,776
<b>Net cash flows other than financing</b>		<b>13,337</b>	<b>101,662</b>	<b>114,999</b>	<b>225,837</b>

**Adjust for payments and receipts not related to Supply:**

Amounts due to the Consolidated Fund - received in a prior year and paid over		(19,627)	(3,465)	(23,092)	(70,686)
Amounts due to the Consolidated Fund - received and not paid over		9,977	68,397	78,374	27,372
<b>Net Cash Requirement for the year (Schedule 1)</b>		<b>3,687</b>	<b>166,594</b>	<b>170,281</b>	<b>182,523</b>

Amount of grant actually issued to support the net cash requirement: £154,334,000.00

The notes on pages 22 to 49 form part of these accounts.

## SCHEDULE 5

**Resources by Departmental Aim and Objectives**  
 for the year ended 31 March 2002

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

	2001/2002		2000/2001	
	Gross	Income	Net	As restated
	Expenditure	Income	Net	Net
	£000	£000	£000	£000
<b>Objectives:</b>				
(1) Maintaining a stable macroeconomic framework with low inflation;	97,026	(21,325)	75,701	62,007
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;	24,289	(1,582)	22,707	22,941
(3) Improving the quality and cost effectiveness of public services;	48,776	(34,959)	13,817	58,346
(4) Increasing the productivity of the economy;	10,294	(269)	10,025	}
(5) Expanding economic and employment opportunities for all;	2,225	(58)	2,167	12,513}
(6) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	3,335	(87)	3,248	3,612
(7) Achieving a high standard of regularity, propriety and accountability;	9,531	(250)	9,281	8,845
(8) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	75,522	(54,756)	20,766	(178,453)
(9) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.	9,723	(270)	9,453	7,050
(10) Other resources required not falling under HM Treasury's nine main objectives.	1,570	(39)	1,531	4,072
<b>Net operating cost</b>	<b>282,291</b>	<b>(113,595)</b>	<b>168,696</b>	<b>933</b>

Resources have been attributed to objectives in line with estimates made by relevant managers within the Department.

The department's objectives were revised with effect from April 2001. Figures for 2000-01 have, so far as possible, been restated for consistency with those for 2001-02, but comparisons should still be made with caution. In particular there is no objective for 2001-02 directly corresponding to objective 8 for 2000-01.

Aside from this, key reasons for change between years include the reduction in the dividend paid by the Bank of England (affecting objectives 1 and 8); the exceptional loss of £27m in 2000-01 on disposal of investments (objective 3); the exceptionally high Pool Re surplus for 2000-01 (objective 8); the costs in 2000-01 of establishing Partnerships UK (objective 3); a reduction in OGC income attributable to the transfer of activity to OGCbuying.solutions (objective 3); an increase in OGC administration costs resulting from projects deferred from the previous year (objective 3); and change in provisions for the residual estate (objective 3: see also note 4.2).

*The notes on pages 22 to 49 form part of these accounts.*

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

### 1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the 2001-2 *Resource Accounting Manual* (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items material in relation to the accounts.

#### 1.1 Accounting Convention

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

#### 1.2 Basis of Consolidation

These accounts comprise a consolidation of the core department and its on-Vote agency the Debt Management Office and the Office of Government Commerce. The Debt Management Office produces and publishes its own accounts. The Office of Government Commerce maintains its own financial accounting records, providing data to the core department for input to the consolidated accounts. Transactions between the core department, the Debt Management Office and the Office of Government Commerce are eliminated.

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

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

International subscriptions	Consolidated Fund and National Loans Fund Accounts Supplementary Statements
The National Debt	Consolidated Fund and National Loans Fund Accounts Supplementary Statements
Gold Reserves	Exchange Equalisation Account
Foreign securities and currencies reserves	Exchange Equalisation Account
IMF Special Drawing Rights	Exchange Equalisation Account

#### 1.3 Tangible Fixed Assets

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

Generally, the threshold for capitalising tangible and intangible fixed assets ranges between £500 and £1000 per item (exclusive of VAT) except antiques where no threshold is set. Where similar assets are purchased together they are grouped for the purpose of determining whether they fall above or below the threshold.

Core department furniture and equipment are valued at depreciated historic cost and are subject to indexation. The revaluation has been calculated in line with the indices provided by the Office for National Statistics in their publication "Price index numbers for current cost accounting".

Antiques in use are stated at estimated market value.

### 1.4 Intangible Fixed Assets

These represent software licences, which are valued at depreciated historic cost and are subject to indexation. The revaluation has been calculated in line with the indices provided by the Office for National Statistics in their publication "Price Index numbers for current cost accounting".

### 1.5 Depreciation

Freehold land and antiques have not been depreciated.

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

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

### 1.6 Investments

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

- (i) Public dividend stock held within the Royal Mint and OGCbuying.solutions, Loan stock held in Troika Insurance Company Limited and bonds held in Partnerships UK and Railtrack are shown as at nominal value;
- (ii) Shares held in privatised industries are quoted at market prices as at 31 March 2002.
- (iii) The investment in the Bank of England is shown at 100% of the Bank's net assets as at 28 February 2002. The investment in Partnerships UK is shown at 44.56% of their net assets as at 31 March 2002.

### 1.7 Stocks

- (i) Under the Treasury's contract with the Royal Mint, returned scrap and obsolete coinage belong to the Treasury. They are shown in the balance sheet at net realisable value as scrap metal, prior to being sold on.
- (ii) Insignia stocks are honours and dignities to be awarded and are shown in the balance sheet at replacement cost.
- (iii) Fuel oil is valued at current replacement cost.

### 1.8 Operating Income

Operating income relates directly to the operating activities of the Department. It includes: statutory fees received from insurance companies under the Insurance Companies Act 1982; recharges at full cost for services provided; and investment income. It includes budgeted and non-budgeted income arising from the activities of the Treasury, some of which is used to offset operational costs ("appropriated-in-aid") and some which is payable to the Consolidated Fund directly ("not appropriated-in-aid"). Income from Pool Re is payable to HMT out of surplus funds recognised after a lapsed period. Income from Troika is shown in the accounts relating to the underwriting year in question, being payable to HMT on a more immediate basis.

### 1.9 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the cost of running the Department as defined under the Administration Cost Control Regime, net of associated administration income. Programme costs, together with associated programme income, relate to income and expenditure to and from the wider public and private sectors.

### 1.10 Capital Charge

A non-cash charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the government's standard rate of 6% in real terms on all assets less liabilities except for:

- (i) investments in the Bank of England, the Royal Mint, and OGCBuying.solutions, where the return is agreed individually in line with the appropriate rate applied to the underlying net assets of the body in question. The target rate of return for the Bank of England is 7%, for the Royal Mint is 11% and for OGCBuying.solutions is 8%;
- (ii) for donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General the charge will be at a nil rate;
- (iii) for assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund, the charge will be at a nil rate.

### 1.11 Foreign Exchange

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

### 1.12 Pensions

The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

### 1.13 Early Departure Costs

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

### 1.14 Surplus Property for Disposal

The Office of Government Commerce (OGC) holds surplus property for disposal, consisting of vacant Civil Estate properties defined as exploitable sites.

#### *Valuation*

Freehold and long leasehold land and buildings are recognised as current assets for disposal at their market value at 31<sup>st</sup> March 2002. The properties are periodically independently valued at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors, and are revalued in line with appropriate indices in the intervening years.

#### *Leasehold Provisions*

The leases on vacant leasehold properties are regarded as onerous contracts under Financial Reporting Standard 12. Therefore, the future liabilities on leaseholds are provided for, and subsequently payments under the leases are charged against the provision. These liabilities are assessed on the basis of the net present value of the future outgoings associated with the lease, discounted at 6%.

## 2. STAFF NUMBERS AND COSTS

### 2A. Staff costs consist of:

	2001/2002			2000/2001	
	Officials	Ministers	Special Advisors	Total	Total
	£000	£000	£000	£000	£000
Wages and salaries	47,454	1,309	567	49,330	45,171
Social Security costs	3,653	135	64	3,852	3,690
Other pension costs	6,839	85	91	7,015	6,556
<b>Total</b>	<b>57,946</b>	<b>1,529</b>	<b>722</b>	<b>60,197</b>	<b>55,417</b>

### By organisation:

	2001/2002		2000/2001	
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Wages and salaries	13,542	35,788	49,330	45,171
Social Security costs	1,046	2,806	3,852	3,690
Other pension costs	1,806	5,209	7,015	6,556
<b>Total</b>	<b>16,394</b>	<b>43,803</b>	<b>60,197</b>	<b>55,417</b>

The PCSPS is an unfunded multi-employer defined benefit scheme although HMT and OGC are unable to identify their share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2000. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation. ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2001-02, employers' contributions of £6,839,242.30 were payable to the PCSPS (2000-01 £6,556,487.08) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

**2. STAFF NUMBERS AND COSTS (continued)**

**2B.** The average number of whole-time equivalent persons (including senior management, ministers and special advisors) employed during the year was as follows:

Objectives 2001-02	2001/2002		2000/2001	
	OGC	HMT	Total	Total As restated
(1) Maintaining a stable macroeconomic framework with low inflation;		68.1	68.1	52.8
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;		177.9	177.9	171.0
(3) Improving the quality and cost effectiveness of public services;	426.0	220.9	646.9	641.5
(4) Increasing the productivity of the economy;		136.9	136.9	}
(5) Expanding economic and employment opportunities for all;		30.1	30.1	159.0}
(6) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;		44.2	44.2	46.3
(7) Achieving a high standard of regularity, propriety and accountability;		124.2	124.2	123.6
(8) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;		65.6	65.6	56.5
(9) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.		123.1	123.1	97.3
TOTALS	426.0	991.0	1417.0	1348.0

The department's objectives were revised with effect from April 2001. Figures for 2000-01 have, so far as possible, been restated for consistency with those for 2001-02, but comparisons should still be made with caution. In particular there is no objective for 2001-02 directly corresponding to objective 8 for 2000-01.

## 2. STAFF NUMBERS AND COSTS (continued)

2C. The salaries and pension entitlements of the most senior civil servants as a result of their employment by the Treasury, and that of ministers who have a direct influence on managing or controlling the activities of the Treasury were as follows:

Name	Age	Salary	Total accrued		Benefits in kind
			Real increase in pension at 60	pension at age 60 at 31 March 2002	
<u>Ministers</u>	<u>Years</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£</u>
Gordon Brown Chancellor of the Exchequer	51	60 - 65	0 - 2.5	5 - 10	£6,800
Andrew Smith Chief Secretary to the Treasury	51	60 - 65	0 - 2.5	5 - 10	---
Dawn Primarolo Paymaster General	47	35 - 40	0 - 2.5	0 - 5	---
Stephen Timms	46	5 - 10	0 - 2.5	0 - 5	---
Paul Boateng (from 11-06-01) Financial Secretary to the Treasury	50	25 - 30	0 - 2.5	0 - 5	---
Melanie Johnson	47	5 - 10	0 - 2.5	0 - 5	---
Ruth Kelly (from 11-06-01) Economic Secretary to the Treasury	33	20 - 25	0 - 2.5	0 - 5	---
<u>Officials</u>					
Sir Andrew Turnbull Permanent Secretary	57	165 - 170	7.5 - 10.0	60 - 65	£10,800
Sir Robert Culpin Managing Director	54	120 - 125	2.5 - 5.0	50 - 55	---
Professor Sir Andrew Likierman Managing Director (part-time basis)	58	65 - 70	0 - 2.5	10 - 15	---
John Gieve Managing Director (to 16-04-01)	52	5 - 10	0 - 2.5	35 - 40	---
Gus O'Donnell Managing Director	49	120 - 125	2.5 - 5.0	30 - 35	---
Hilary Douglas Managing Director	51	100 - 105	2.5 - 5.0	30 - 35	---
Jon Cunliffe Managing Director	48	95 - 100	2.5 - 5.0	10 - 15	---
Nicholas Macpherson Managing Director (from 23-04-01)	42	95 - 100	5.0 - 7.5	15 - 20	---
Margaret Exley Non-Executive Director (TMB & Audit Committee)	52	---	---	---	---
Chris Swinson Non-Executive Director (Audit Committee)	54	---	---	---	---
Mike Williams Chief Executive DMO	54	85 - 90	2.5 - 5.0	25 - 30	---
Peter Gershon Chief Executive OGC	55	185-190	Not part of scheme		---

**2. STAFF NUMBERS AND COSTS (continued)****2C. (continued)**

Pension benefits for civil servants are provided through the Principal Civil Service Pension Scheme (PCSPS). For most senior managers this provides on a "final salary" basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80<sup>th</sup> of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances and private office allowances.

In addition to the benefits in kind disclosed above for the Chancellor of the Exchequer (heating, lighting and other expenses of his official residence at 11 Downing Street) and the Permanent Secretary (his official car) other Ministers and senior Officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. HMT has an agreement with the Inland Revenue to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts, none of which had a value greater than £1,000

**2D.** In addition, the Treasury bears the ministerial salaries of the following, for the year ended 31 March 2002:

<b>Official title</b>	<b>Name</b>	<b>Remuneration £000</b>
Prime Minister	Tony Blair	115 - 120
Chief Whip (Commons)	Ann Taylor	20-25
	Hilary Armstrong (from 08-06-01)	50 - 55
Deputy Chief Whip (Commons)	Keith Bradley	5-10
	Keith Hill (from 11-06-01)	25-30
Chief Whip (Lords)	Lord Carter	100 - 105
Deputy Chief Whip (Lords)	Lord McIntosh	60 - 65
Lords in waiting (5 posts)		415 - 420
Government and Assistant Government Whips (14 posts)		355 - 360

**3. OTHER ADMINISTRATION COSTS**

	2001/2002		2000/2001	
	OGC £000	HMT £000	Total £000	Total £000
<b>Rentals under operating leases</b>				
Hire of plant and machinery	125		125	85
Land and buildings	2,381	2,993	5,374	4,259
	<b>2,506</b>	<b>2,993</b>	<b>5,499</b>	<b>4,344</b>
Research and development expenditure	193		193	457
<b>Non cash items</b>				
Depreciation	1,348	3,927	5,275	4,202
Loss/(gain) on disposal of fixed assets	(2)	16	14	47
Loss on revaluation of fixed assets	476	299	775	594
Auditor's remuneration	65	113	178	212
Cost of capital	114	1,960	2,074	2,446
Provisions:				
Provided in year	893	648	1,541	2,137
Unwinding of discount on provision	82	155	237	200
	<b>2,976</b>	<b>7,118</b>	<b>10,094</b>	<b>9,838</b>
<b>Other expenditure</b>	<b>23,213</b>	<b>22,744</b>	<b>45,957</b>	<b>40,328</b>
<b>Total</b>	<b>28,888</b>	<b>32,855</b>	<b>61,743</b>	<b>54,967</b>

**4. NET PROGRAMME COSTS**

	2001/2002	2000/2001
	£000	£000
<b>Request for Resources 1: HM Treasury</b>		
Current grants	1,074	6,194
Insurance services (note 4.1)	11,442	15,565
Cost of capital	108,103	102,997
Loss on revaluation of investments	1,151	
Other current expenditure	2,748	8,144
Loss on disposal of investments (2000-01 exceptional item)		27,754
	<u>124,518</u>	<u>160,654</u>
<b>Request for Resources 2: UK Coinage</b>		
Cost of capital	7,023	4,862
Other current expenditure	33,156	37,963
	<u>40,179</u>	<u>42,825</u>
Bank of England services	12,171	11,732
<b>Total HMT programme costs</b>	<u>176,868</u>	<u>215,211</u>
<b>Request for Resources 3: OGC</b>		
Other current expenditure	13,132	25,240
Whitehall Systems running costs	2,895	2,811
Whitehall Systems depreciation	1,293	1,280
Cost of capital	1,450	(137)
Release of surplus provision re vacant estate (note 4.2)	(39,610)	(11,719)
Unwinding of discount on provisions	4,323	6,512
<b>Total OGC programme costs</b>	<u>(16,517)</u>	<u>23,987</u>
<b>Sub total programme costs</b>	<u>160,351</u>	<u>239,198</u>
<b>Less programme income</b>		
Request for Resources 1 - HM Treasury (note 5)	(77,936)	(289,767)
Request for Resources 2 - UK Coinage (note 5)	(258)	(618)
Request for Resources 3 – OGC (note 5)	(17,985)	(35,522)
	<u>(96,179)</u>	<u>(325,907)</u>
<b>Net Programme Costs</b>	<u>64,172</u>	<u>(86,709)</u>

**4.1 Discontinued operation**

The current arrangements for insurance supervision came to an end on 30 November 2001, when the Financial Services Authority (FSA) assumed its full powers under the Financial Services and Markets Act 2000. This order made the FSA recipient of fees paid by insurance companies for the running of the FSA, leaving the FSA financially independent of the HM Treasury. All expenditure and income in respect of insurance services shown in HM Treasury's resource accounts for 2001–02 are for a part year only. The Service Level Agreement was revoked, although HM Treasury retains rights over the retention and inspection of FSA records.

A final payment of £2,583k will be made to HM Treasury in two instalments on 31 July 2003 and 31 July 2004 to cover deficits previously financed by HM Treasury to be recovered from insurance companies through future fees.

**4.2 Exceptional item: release of vacant estate provision**

The release of provisions on the vacant estate of £39,610k includes £33,109k for provision reassessment on three properties, which are to be disposed in financial year 2002-2003 and for which no cash payment will be made by OGC (see explanation of variance note to Schedule 1).

## 5. INCOME AND APPROPRIATIONS IN AID

Operating income analysed by activities:

	2001/2002 Appropriated in Aid £000	2001/2002 Payable to Consolidated Fund £000	Income included in OCS £000	2000/2001 Income included in OCS £000
<b>Administration income</b>				
Central Treasury Activities	2,772		2,772	3,202
<b>Programme income</b>				
<b>Request for Resources 1: HM Treasury</b>				
Insurance services (note 5.1)	9,450	2,583	12,033	14,012
Pool Re insurance premiums (note 5.2)		6,777	6,777	203,972
Troika insurance premiums (note 5.2)		14,620	14,620	
Bank of England dividend		42,396	42,396	67,650
Other income	80	522	602	3,089
Other dividends and interest		1,508	1,508	1,044
	<b>9,530</b>	<b>68,406</b>	<b>77,936</b>	<b>289,767</b>
<b>Request for Resources 2: UK Coinage</b>				
Sale of coinage scrap metal	258		258	618
<b>Total programme income HMT</b>	<b>9,788</b>	<b>68,406</b>	<b>78,194</b>	<b>290,385</b>
<b>Total operating income HMT</b>	<b>12,560</b>	<b>68,406</b>	<b>80,966</b>	<b>293,587</b>
<b>OGC</b>				
<b>Administration income</b>				
Allowable within admin. cost limit	14,029		14,029	16,449
Other income		615	615	3,091
<b>Total administration income OGC</b>	<b>14,029</b>	<b>615</b>	<b>14,644</b>	<b>19,540</b>
<b>Programme income</b>				
Management and disposal of vacant property	3,991	9,454	13,445	30,961
Whitehall Systems	4,540		4,540	4,561
<b>Total programme income OGC</b>	<b>8,531</b>	<b>9,454</b>	<b>17,985</b>	<b>35,522</b>
<b>Total operating income OGC</b>	<b>22,560</b>	<b>10,069</b>	<b>32,629</b>	<b>55,062</b>
<b>Department total operating income</b>	<b>35,120</b>	<b>78,475</b>	<b>113,595</b>	<b>348,649</b>

### 5.1 Discontinued operation

As at 30 November 2001 the Financial Services Authority (FSA) assumed its full powers under the Financial Services and Markets Act 2000. All income in respect of insurance services shown in the 2001–02 accounts are for a part year only.

### 5.2 Insurance premiums

Income from Pool Re arises under The Reinsurance (Acts of Terrorism) Act 1993, under which the Treasury provides reinsurance for terrorist attacks on commercial or industrial property. Pool Re pays a premium to the Treasury, subject to a threshold level of funds. The income in 2000-01 was exceptional because the threshold level of funds was reached for the first time.

Following the September 11 attacks, Troika was established by the Treasury under the sole authority of the Appropriation Act to provide third party war and terrorism cover to the aviation industry. Premiums are chargeable in accordance with European Commission guidelines.

**6. ADMINISTRATION COST LIMITS**

	2001/2002		2000/2001	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for Resources 1 (HMT Gross Limit)	68,632	73,688	64,291	72,444
Request for Resources 2 (HMT Gross Limit)				
Request for Resources 3 (OGC Gross Limit)	28,986	34,001	18,613	24,505
	<b>97,618</b>	<b>107,689</b>	<b>82,904</b>	<b>96,949</b>

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

**7. RECONCILIATION OF NET OPERATING COSTS TO CONTROL TOTAL AND NET RESOURCE OUTTURN**

	2001/2002		2000/2001	
	OGC	HMT	Total	Total
	£000	£000	£000	£000
<b>Net Operating Costs</b>	(3,864)	172,560	168,696	933
Less: Non-Supply expenditure in resource budget		(12,171)	(12,171)	(11,732)
Add: Operating income not appropriated-in-aid	10,069	68,406	78,475	284,848
<b>Net Resource Outturn</b>	<b>6,205</b>	<b>228,795</b>	<b>235,000</b>	<b>274,049</b>

## 8. ANALYSIS OF NET RESOURCE OUTTURN AND NET OPERATING COST BY FUNCTION 2001/2002

	Admin £000	Other Current £000	Current resource Grant £000	Gross resource expend. £000	A-in-A £000	Net Total Outturn £000	Estimate £000	Net Total Outturn compared with Estimate £000
<b>Request for Resources 1: HM Treasury</b>								
Central Treasury Activities	74,698			74,698	(2,772)	71,926	83,152	11,226
Current grants			1,074	1,074		1,074	1,327	253
Insurance services		11,442		11,442	(9,450)	1,992	700	(1,292)
Other current expenditure		2,748		2,748		2,748	10,386	7,638
Other income					(80)	(80)		80
Cost of capital	1,960	108,103		110,063		110,063	108,845	(1,218)
Loss on revaluation of investments		1,151		1,151		1,151		(1,151)
	<b>76,658</b>	<b>123,444</b>	<b>1,074</b>	<b>201,176</b>	<b>(12,302)</b>	<b>188,874</b>	<b>204,410</b>	<b>15,536</b>
<b>Request for Resources 2: UK Coinage</b>								
Cost of capital		7,023		7,023		7,023	6,366	(657)
Other current expenditure		33,156		33,156	(258)	32,898	34,100	1,202
		<b>40,179</b>		<b>40,179</b>	<b>(258)</b>	<b>39,921</b>	<b>40,466</b>	<b>545</b>
<b>Net resource outturn HMT – on vote</b>	<b>76,658</b>	<b>163,623</b>	<b>1,074</b>	<b>241,355</b>	<b>(12,560)</b>	<b>228,795</b>	<b>244,876</b>	<b>16,081</b>
<b>Request for Resources 3: OGC</b>								
Administration	45,282			45,282	(14,029)	31,253	40,300	9,047
Programme activity		(16,517)		(16,517)	(8,531)	(25,048)	18,651	43,699
	<b>45,282</b>	<b>(16,517)</b>		<b>28,765</b>	<b>(22,560)</b>	<b>6,205</b>	<b>58,951</b>	<b>52,746</b>
<b>Resource Outturn</b>	<b>121,940</b>	<b>147,106</b>	<b>1,074</b>	<b>270,120</b>	<b>(35,120)</b>	<b>235,000</b>	<b>303,827</b>	<b>68,827</b>
Bank of England services						12,171		
Income payable to the Consolidated Fund						(78,475)		
<b>Net Operating Cost</b>						<b>168,696</b>		

These functions correspond to the disaggregation of Requests for Resources for control purposes and Parliamentary approval. They do not correspond to Departmental objectives, which reflect a disaggregation of Departmental aims for management activities. (For an analysis of Appropriations-in-Aid see Note 5.) Non supply expenditure relates to provision for payment to the Bank of England to cover costs of banknote production and issue. These costs are deducted from the profits of the Bank's Issue Department which are paid over to the National Loans Fund. In addition payments to the Bank on debt management are funded from the NLF, and the costs the Bank incurs in managing the Exchange Equalisation Account are withdrawn from the account.

## 9. ANALYSIS OF NET OPERATING COST

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

Spending Body	2001/2002	2000/2001
	Outturn £000	Outturn £000
Core Department	172,186	(10,823)
Office of Government Commerce	(3,864)	6,372
Private Finance Taskforce		1,730
Parliamentary Bodies	374	3,654
	<b>168,696</b>	<b>933</b>

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

	2001/2002			Net total £000
	Capital Expend. £000	Loans, etc. £000	A-in-A £000	
	Request for Resources 1	10,848		
Request for Resources 2				
Request for Resources 3	1,101			1,101
<b>Total</b>	<b>11,949</b>			<b>11,949</b>

## 11. INTANGIBLE FIXED ASSETS

	OGC	HMT	Total
	£000	£000	£000
<b>Cost/valuation</b>			
At 1 April 2001	1,542	3,151	4,693
Additions	214	794	1,008
Transfer from tangible fixed assets		603	603
Disposals		(2,400)	(2,400)
Loss on revaluation charged to OCS	(130)	(224)	(354)
<b>At 31 March 2002</b>	<b>1,626</b>	<b>1,924</b>	<b>3,550</b>
<b>Accumulated depreciation</b>			
At 1 April 2001	883	2,594	3,477
Transfer from tangible fixed assets		273	273
Charge in year	327	604	931
Released on disposal		(2,400)	(2,400)
Loss on revaluation charged to OCS	(40)	(175)	(215)
<b>At 31 March 2002</b>	<b>1,170</b>	<b>896</b>	<b>2,066</b>
Net book value 1 April 2001	659	557	1,216
<b>Net book value 31 March 2002</b>	<b>456</b>	<b>1,028</b>	<b>1,484</b>

Software licences previously classified by DMO under tangible assets have been moved to intangible assets.

**12. TANGIBLE FIXED ASSETS****12.1 Summary**

	OGC £000	HMT £000	Total £000
<b>Cost/valuation</b>			
At 1 April 2001	42,438	45,679	88,117
Additions	813	5,074	5,887
Disposal	(98)	(1,490)	(1,588)
Transfer to intangible fixed assets		(603)	(603)
Revaluation	558	702	1,260
Loss on revaluation charged to OCS	(808)	(1,326)	(2,134)
<b>At 31 March 2002</b>	<b>42,903</b>	<b>48,036</b>	<b>90,939</b>
<b>Accumulated depreciation</b>			
At 1 April 2001	21,915	9,894	31,809
Charge in year	2,314	3,323	5,637
Released on disposal	(86)	(1,391)	(1,477)
Transfer to intangible fixed assets		(273)	(273)
Revaluation	197	(647)	(450)
Loss on revaluation charged to OCS	(422)	(1,076)	(1,498)
<b>At 31 March 2002</b>	<b>23,918</b>	<b>9,830</b>	<b>33,748</b>
Net book value 1 April 2001	20,523	35,785	56,308
<b>Net book value 31 March 2002</b>	<b>18,985</b>	<b>38,206</b>	<b>57,191</b>

Software licences previously classified by DMO under tangible assets have been moved to intangible assets.

**12.2 HMT tangible fixed assets**

	Freehold Land £000	Leasehold Improvement £000	Furniture & Equipment £000	Antiques £000	Library Collection £000	Total £000
<b>Cost/valuation</b>						
At 1 April 2001	28,416	398	14,975	1,824	66	45,679
Additions		648	4,426			5,074
Disposal			(1,417)	(73)		(1,490)
Transfer to intangibles			(603)			(603)
Revaluation	954	(15)	(237)			702
Loss on revaluation charged to OCS			(1,326)			(1,326)
<b>At 31 March 2002</b>	<b>29,370</b>	<b>1,031</b>	<b>15,818</b>	<b>1,751</b>	<b>66</b>	<b>48,036</b>
<b>Accumulated depreciation</b>						
At 1 April 2001		398	9,465		31	9,894
Charge in year		114	3,203		6	3,323
Released on disposal			(1,391)			(1,391)
Transfer to intangibles			(273)			(273)
Revaluation		(387)	(260)			(647)
Loss on revaluation charged to OCS			(1,076)			(1,076)
<b>At 31 March 2002</b>		<b>125</b>	<b>9,668</b>		<b>37</b>	<b>9,830</b>
Net book value 1 April 2001	28,416		5,510	1,824	35	35,785
<b>Net book value 31 March 2002</b>	<b>29,370</b>	<b>906</b>	<b>6,150</b>	<b>1,751</b>	<b>29</b>	<b>38,206</b>

HMT made a loss on disposal of tangible fixed assets of £16k which has been taken to the Operating Cost Statement.

## 12.2 HMT tangible fixed assets (continued)

The freehold land and buildings (the site formerly known as Government Offices Great George St – GOGGS) were valued on 17<sup>th</sup> January 2000 by CB Hillier Parker Ltd., an independent firm of Chartered Surveyors. The valuation was on the basis of open market value for existing use. Hillier Parker deducted from their valuation the estimated costs of essential structural works required to be made to the GOGGS building. These costs totalling £50 million were quantified in a separate report by DTZ Debenhams Thorpe, an independent firm of Chartered Surveyors. This led to an impairment of £23,116,000 as charged to the 1999/2000 operating cost statement, which reduced the value of the building to nil. HM Treasury has entered into a 35 year PFI contract with Exchequer Partnership (EP) for the refurbishment of their GOGGS headquarters building. For 2001/2002 the land asset continues to be recognised at the 1999/2000 existing use valuation indexed upwards to reflect changes in land values. The building continues to be recognised at nil value. Under FRS5, full recognition of the PFI contract is not required until GOGGS is brought back into use in July 2002. Note 29 "Post Balance Sheet Events" gives further disclosure relating to GOGGS and the accounting treatment of the PFI contract.

## 12.3 OGC tangible fixed assets

	Land and Buildings	Plant & Machinery	Furniture & Equipment	Whitehall District Heating System	Whitehall Standby Distribution System	Total
	£000	£000	£000	£000	£000	£000
<b>Cost/valuation</b>						
At 1 April 2001	2,997	237	5,157	13,613	20,434	42,438
Additions	11	48	754			813
Disposal		(17)	(81)			(98)
Revaluation	246		(28)	136	204	558
Loss on revaluation charged to OCS		(41)	(767)			(808)
<b>At 31 March 2002</b>	<b>3,254</b>	<b>227</b>	<b>5,035</b>	<b>13,749</b>	<b>20,638</b>	<b>42,903</b>
<b>Accumulated depreciation</b>						
At 1 April 2001	282	71	2,631	4,627	14,304	21,915
Charge in year	177	25	819	605	688	2,314
Released on disposal		(13)	(73)			(86)
Revaluation	18		(10)	46	143	197
Loss on revaluation charged to OCS		(20)	(402)			(422)
<b>At 31 March 2002</b>	<b>477</b>	<b>63</b>	<b>2,965</b>	<b>5,278</b>	<b>15,135</b>	<b>23,918</b>
Net book value 1 April 2001	2,715	166	2,526	8,986	6,130	20,523
<b>Net book value 31 March 2002</b>	<b>2,777</b>	<b>164</b>	<b>2,070</b>	<b>8,471</b>	<b>5,503</b>	<b>18,985</b>

### 12.3 OGC tangible fixed assets (continued)

The Whitehall District Heating System and the Whitehall Standby Distribution System supply heating and emergency electricity to government departments in the Whitehall area. They were independently professionally valued at 31 March 1999 and have been indexed thereafter.

## 13. INVESTMENTS

### 13.1 FIXED INVESTMENTS

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

	At 1 April 2001 £000	Additions £000	Disposals £000	Revaluation £000	At 31 March 2002 £000
<b>OGC</b>					
OGCbuying.solutions		350			350
<b>HMT</b>					
Bank of England	1,484,000			42,000	1,526,000
Royal Mint	7,000		(1,500)		5,500
Partnerships UK Shares	4,456			(1,130)	3,326
Partnerships UK Loan Stock	15,594				15,594
Railtrack Bonds	1,210				1,210
HMT Total	1,512,260		(1,500)	40,870	1,551,630
<b>Department total</b>	<b>1,512,260</b>	<b>350</b>	<b>(1,500)</b>	<b>40,870</b>	<b>1,551,980</b>

#### 13.1(a) Bank of England

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

HM Treasury's investment in the Bank of England is valued at the Bank's audited net assets as at 28 February 2002. Extracts from the Banking Department accounts of the Bank of England for the year ended 28 February 2002 are shown in the table below; for further information, refer to the full Bank of England Report and Accounts.

**13.1(a) Fixed investment in the Bank of England (continued)****Extracts from the banking Department accounts  
For the year ended 28 February**

	<b>2002</b>	<b>2001</b>
	<b>£ million</b>	<b>£ million</b>
<b>Extracts from the profit and loss account</b>		
Profit before taxation	103	156
Payable to HM Treasury (see note 5 of the HMT accounts)	(42)	(68)
Taxation	(19)	(20)
<b>Retained profit for the year</b>	<b>42</b>	<b>68</b>

**Extracts from the balance sheet****Assets**

Loans and advances to banks, the money market and customers	5,293	6,229
Debt securities	6,517	4,086
Other assets	1,337	1,245
<b>Total assets</b>	<b>13,147</b>	<b>11,560</b>

**Liabilities**

Deposits by central banks, other banks and building societies	5,937	6,229
Debt securities in issue	3,962	2,531
Other liabilities	1,722	1,316
<b>Total liabilities</b>	<b>11,621</b>	<b>10,076</b>

**Net assets and shareholders funds**

	<b>1,526</b>	<b>1,484</b>
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In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 28 February 2002 totalled £29.39 billion (2001: £27.20 billion). The notes are a liability of the Bank, which must be backed by an equivalent value of securities. Total securities held by the Issue Department at 28 February were £29.39 billion (2001: £27.20 billion), which included the Ways and Means Advance to the National Loans Fund of £13.37 billion (2001: £13.37 billion) and financial instruments issued by other banks.

The profit of the Issue Department for the year ended 28 February 2002 was £1.41 billion (2001: £1.58 billion). Each year's profit is paid over to the National Loans Fund. The profit represents the interest on the securities held by the Issue Department less the costs of production of bank notes and other expenses. The Issue Department's liabilities (bank notes in circulation) are interest free.

**13.1(b) Royal Mint**

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

During 2001-02, the Royal Mint redeemed £1.5 million of its Public Dividend Capital, and took out a loan from the National Loans Fund (NLF) for the same value. This reduced the nominal value of HM Treasury's investment from £7 million to £5.5 million. No dividend has been paid for either of the last two years.

Extracts from the audited accounts of the Royal Mint are shown in the table below; for further information, refer to the full Royal Mint Report and Accounts.

**13.1(b) Fixed investment in the Royal Mint (continued)**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
<b>Extracts from the profit and loss account</b>		
Turnover	79,672	96,241
Operating loss before exceptional costs	(6,473)	(493)
Exceptional costs	(12,000)	
Net interest payable	(828)	(190)
<b>Retained loss for the year</b>	<b>(19,301)</b>	<b>(683)</b>
<b>Extracts from the balance sheet</b>		
Fixed assets	42,978	49,053
Current assets	62,233	60,681
Liabilities due within one year	(35,697)	(39,251)
Liabilities due after more than one year	(23,510)	(231)
<b>Net assets and shareholders funds</b>	<b>46,004</b>	<b>70,252</b>

**13.1(c) Partnerships UK**

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

The shares allocated to private investors were sold under a tender process, at a tender price of £4.50 per share. HMT's equity interest was valued on the same basis at 31 March 2001. As at 31 March 2002, the equity interest has been revalued to the net asset value per share. The resultant loss on revaluation of £1.13 million has been charged to the operating cost statement.

HMT's holding of PUK Loan Stock is shown at nominal value. No dividend was declared on the shares, but interest was received on the loan stock.

**13.1(d) Railtrack Bonds**

The Railtrack Bonds were redeemed on 10 October 2002. The redemption price included the principal value as reflected in HMT's accounts plus accrued interest.

**13.2 CURRENT INVESTMENTS**

	<b>Residual Shares £000</b>	<b>Bonus Shares £000</b>	<b>Pool Shares Other Depts £000</b>	<b>Troika Insurance Company Limited £000</b>	<b>Total £000</b>
At 1 April 2001	10,006	3,565	1,513		15,084
Additions			103	5,000	5,103
Transfers	3,525	(3,525)			
Revaluation	990	2	(451)		541
Impairment			(21)		(21)
<b>At 31 March 2002</b>	<b>14,521</b>	<b>42</b>	<b>1,144</b>	<b>5,000</b>	<b>20,707</b>

The Department holds residual shares from past privatisations as current assets. The shares are valued at market value as at 31 March 2002. The significant components of the total are holdings in Powergen plc, with a market value at 31 March 2002 of £10.766 million (2001: £9.997 million) and Innogy plc, with a market value at 31 March 2002 of £2.095 million (2001: £1.478 million).

**13.2 Current investments (continued)**

Registrars of previous share issues hold shares for issue in cases where bonus shares were due but not issued. The registrars also hold cash in respect of the dividends which these shares have earned since their issue. Past dividends are issued as bonus shares are claimed. The shares are valued at market value as the 31 March 2002.

Pool shares previously held by other Departments have been transferred to the Treasury for disposal. They are valued at market value at the 31 March 2002.

**Troika Insurance Company Limited**

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

The Treasury provides reinsurance for 100% of Troika's insured risks. This gives rise to a material but unquantifiable contingent liability of the Treasury as from 24<sup>th</sup> September 2001, as referred to in note 22.

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

**14. MOVEMENTS IN WORKING CAPITAL OTHER THAN CASH**

	2001/2002		2000/2001	
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Increase / (decrease) in stock	(8)	(162)	(170)	(183)
Increase / (decrease) in debtors	(10,400)	(209,334)	(219,734)	222,091
(Increase) / decrease in creditors	6,339	(14,894)	(8,555)	(3,499)
<b>Total movement</b>	<b>(4,069)</b>	<b>(224,390)</b>	<b>(228,459)</b>	<b>218,409</b>

**15. SURPLUS FREEHOLD PROPERTY**

	£000
At 1 April 2001	82,205
Additions	74
Disposals	(41,989)
Revaluation	35,541
<b>At 31 March 2002</b>	<b>75,831</b>

The properties were independently valued where they had not been so previously valued or where significant changes had taken place since the last independent valuation. In other cases the values were based on post balance sheet date selling prices. Independent valuations were assessed at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors.

**16. STOCKS**

	2002		Total	2001 Total
	OGC	HMT		
	£000	£000	£000	£000
Coinage scrap metal (Non-cash)		120	120	78
Insignia		1,718	1,718	1,880
Fuel Oil	118		118	126
<b>Total</b>	<b>118</b>	<b>1,838</b>	<b>1,956</b>	<b>2,084</b>

**17. DEBTORS**

	2002		Total	2001 Total
	OGC	HMT		
	£000	£000	£000	£000
<b>Amounts falling due within 1 year</b>				
VAT	1,069	609	1,678	1,731
Trade debtors	3,158	433	3,591	6,245
Deposits and advances	40	3,282	3,322	3,121
Other debtors	4,118	2,127	6,245	301
Prepayments and accrued income	1,394	60,639	62,033	283,507
Prefunding for premature retirements	267	191	458	613
	<b>10,046</b>	<b>67,281</b>	<b>77,327</b>	<b>295,518</b>
<b>Amounts falling due after more than 1 year</b>				
Other debtors		6,435	6,435	10,477
Prepayments and accrued income		2,583	2,583	
Prefunding for premature retirements	485	227	712	796
	<b>485</b>	<b>9,245</b>	<b>9,730</b>	<b>11,273</b>
<b>Total</b>	<b>10,531</b>	<b>76,526</b>	<b>87,057</b>	<b>306,791</b>

Included within debtors is £69,804k (2001: £278,607k) that will be due to the Consolidated Fund once the debts are collected.

**18. CASH AT BANK AND IN HAND**

	2002		Total	2001 Total
	OGC	HMT		
	£000	£000	£000	£000
<b>Balance at 1 April</b>	<b>15,283</b>	<b>19,258</b>	<b>34,541</b>	<b>83,317</b>
<b>Net cash inflow/(outflow)</b>	<b>39,563</b>	<b>(228)</b>	<b>39,335</b>	<b>(48,776)</b>
<b>Balance at 31 March</b>	<b>54,846</b>	<b>19,030</b>	<b>73,876</b>	<b>34,541</b>

HM Paymaster General provides a current account banking service, whilst some deposits are held at the Bank of England. The following balances were held at 31 March 2002:

	2002		Total	2001 Total
	OGC	HMT		
	£000	£000	£000	£000
Office of HM Paymaster General	54,844	18,461	73,305	34,190
Cash in hand	2	569	571	351
<b>Balance at 31 March</b>	<b>54,846</b>	<b>19,030</b>	<b>73,876</b>	<b>34,541</b>

**18. CASH AT BANK AND IN HAND (continued)**

The balance at 31 March comprises:	2002		Total £000	2001 Total £000
	OGC	HMT		
	£000	£000		
Amounts issued from the Consolidated Fund for supply but not spent at year end	47,824	11,562	59,386	15,489
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	7,022	7,468	14,490	19,052
	<b>54,846</b>	<b>19,030</b>	<b>73,876</b>	<b>34,541</b>

**19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2002		Total £000	2001 Total £000
	OGC	HMT		
	£000	£000		
VAT				500
Trade creditors	281	3,135	3,416	2,540
Other creditors	93	6,501	6,594	2,737
Accruals and deferred income	5,445	14,063	19,508	15,183
Amounts issued from the Consolidated Fund for supply but not spent at year end	47,824	11,562	59,386	15,489
Consolidated Fund extra receipts received and receivable and other due to be paid to the Consolidated Fund	9,977	68,397	78,374	300,068
<b>Total</b>	<b>63,620</b>	<b>103,658</b>	<b>167,278</b>	<b>336,517</b>

There are no creditors falling due after more than one year.

**20. PROVISIONS FOR LIABILITIES AND CHARGES**

	Surplus	Specific	Early	Total £000
	leasehold	dilapidations	retirement &	
	property	and legal	pension	
	£000	£000	£000	
<b>HMT</b>				
Balance at 1 April 2001			2,592	2,592
Provision utilised in year			(1,139)	(1,139)
Transfer from/(to) operating cost statement			648	648
Unwinding of discount			155	155
<b>At 31 March 2002</b>			<b>2,256</b>	<b>2,256</b>
<b>OGC</b>				
Balance at 1 April	79,422	15,619	1,690	96,731
Provision utilised in year	(4,485)	(274)	(684)	(5,443)
Transfer to creditors		(11,000)		(11,000)
Transfer from/(to) operating cost statement	(39,601)	(9)	893	(38,717)
Unwinding of discount	4,323		82	4,405
<b>At 31 March 2002</b>	<b>39,659</b>	<b>4,336</b>	<b>1,981</b>	<b>45,976</b>
<b>Department total at 31 March 2002</b>	<b>39,659</b>	<b>4,336</b>	<b>4,237</b>	<b>48,232</b>

**20. PROVISIONS (continued)****Maturity analysis of provisions: amounts estimated to fall due**

	<b>OGC</b>	<b>HMT</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within one year	19,788	833	20,621
Between one and two years	2,945	556	3,501
Between two and five years	7,765	711	8,476
After five years	15,478	156	15,634
	<b>45,976</b>	<b>2,256</b>	<b>48,232</b>

**Early retirement & pension commitments**

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6% in real terms. In past years the department paid in advance for some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining from this is treated as a prepayment and shown in debtors.

**Surplus leasehold property**

The surplus leasehold property provision includes the net present value of future lease payments on vacant property, together with estimates of any dilapidations due at the lease end. The exceptional movement on the provision in year is explained in note 4.2.

**Specific dilapidations and legal costs**

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

**21. REVALUATION RESERVE**

	<b>OGC</b>	<b>HMT</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2001</b>	<b>38,369</b>	<b>206,755</b>	<b>245,124</b>
<b>Arising on revaluation during the year (net):</b>			
Tangible assets	361	1,349	1,710
Investments		42,541	42,541
Surplus freehold property	35,541		35,541
	<b>35,902</b>	<b>43,890</b>	<b>79,792</b>
<b>Transfer (to)/from General Fund in respect of realised element of revaluation reserve:</b>			
Tangible assets		(414)	(414)
Surplus freehold property	(23,686)		(23,686)
	<b>(23,686)</b>	<b>(414)</b>	<b>(24,100)</b>
<b>Balance at 31 March 2002</b>	<b>50,585</b>	<b>250,231</b>	<b>300,816</b>

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

**22. CONTINGENT ASSETS & LIABILITIES**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
<b>Contingent assets</b>		
OGC is pursuing claims against other parties to recover monies in connection with the disposal of vacant properties. Claims against OGC for dilapidations on expired leases and associated costs are considered to be adequately covered in the specific dilapidations and legal costs provision (see Note 20 above).	1,850	650
<b>Contingent liabilities</b>		
Arrangements to provide reinsurance facilities for terrorist attacks against industrial and commercial property in mainland Great Britain where under the arrangements insurers had exhausted their funds for meeting the cost of any claims. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.	Unquantifiable	Unquantifiable
Guarantee on the privatisation of H M Paymaster General against liabilities incurred by the purchaser in connection with the ownership or operation of the business before its transfer. This is the maximum possible liability, but no assessment has been made of the expected level of payments.	4,800	4,800

**23. CAPITAL COMMITMENTS**

The Treasury has entered into a PFI contract with Exchequer Partnerships for the refurbishing and subsequent letting to them of its GOGGS headquarters. Details of this deal and the associated commitments are provided in note 29 – Post balance sheet events.

At 31 March 2002, the Office of Government Commerce had authorised but not contracted for the refurbishment of its premises at Trevelyan House, Great Peter Street, London to enable the organisation to bring all OGC staff working in Central London to a single location. The cost of this work is budgeted at £4.6m.

There are no other capital commitments.

**24. COMMITMENTS UNDER OPERATING LEASES**

At 31 March 2002 the Department was committed to making the following payments during the next year in respect of operating leases expiring:

	<b>2002</b>		<b>2001</b>
	<b>Land &amp; buildings</b>	<b>Other</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within one year		46	102
Between two and five years		202	392
After five years	6,881		3,399
	<b>6,881</b>	<b>248</b>	<b>7,129</b>
			<b>3,893</b>

The land and buildings annual operating lease commitment at 31 March 2002 included £1,696k in respect of Allington Towers, which was vacated by HMT in July 2002. Responsibility for the lease on Allington Towers has been transferred to the Home Office.

**25. OTHER COMMITMENTS**

The Treasury has committed to pay the Royal Mint for the production costs of coinage purchased in the year. An annual payment is made, on the basis of "units" relating to the coins made (which takes into account the resource requirement of each coin) within the following bands:

Numbers of coin purchased in each year	Unit price per million £	Commitment based on purchase of 1,911 million coins £000
0 to 1,400,000,000	10,243	14,343
1,400,000,001 to 1,800,000,000	6,995	2,798
Over 1,800,000,000	5,996	0,038
		<u>17,179</u>

In addition to the £17.179m above, Royal Mint charges HMT for metal and freight costs, which totalled approximately £10m in 2001-02.

**26. RECONCILIATION OF NET OPERATING COST TO CHANGES IN GENERAL FUND**

	2001/2002		2000/2001	
	OGC £000	HMT £000	Total £000	Total £000
<b>Net operating cost for the year (Schedule 2)</b>	3,864	(172,560)	(168,696)	(933)
Non-operating income				4,554
Income not appropriated in aid paid and payable to the Consolidated Fund	(10,069)	(68,406)	(78,475)	(459,390)
	(6,205)	(240,966)	(247,171)	(455,769)
Parliamentary Funding drawn down	52,900	101,434	154,334	180,661
Parliamentary Funding brought forward		15,486	15,486	10,772
Transfer of General Fund of realised element of revaluation reserve (note 21)	23,686	414	24,100	114,331
Consolidated Fund Creditor for cash unspent	(47,824)	(11,562)	(59,386)	(15,489)
Reconciliation of the opening creditor to the Consolidated Fund	(1,197)	6,572	5,375	56,174
Non-cash items:				
Cost of capital	1,564	117,086	118,650	110,168
Auditor's remuneration	65	113	178	212
Bank of England services		12,171	12,171	11,732
Transfers in of assets	350	144	494	986
Intra departmental consolidation adjustments	682	(682)		
<b>Net increase/(decrease) in General Fund</b>	24,021	210	24,231	13,778
<b>General Fund at 1 April</b>	(23,085)	1,352,610	1,329,525	1,315,747
<b>General Fund at 31 March (Schedule 3)</b>	936	1,352,820	1,353,756	1,329,525

## **27. RELATED PARTY TRANSACTIONS**

The Department in its role as custodian of the Consolidated Fund has transactions with other government Departments and central government bodies. Voted funds also include other miscellaneous areas of expenditure (eg. grants for distribution to various Parliamentary bodies). The Department Expenditure Limit (DEL) includes non-voted expenditure, which is directly related to its operations (eg Bank of England standing services) as well as other non-operational items (eg MEP salaries, payments to the Royal Household and the Civil List).

Although the Bank of England and Royal Mint fall outside the resource accounting boundary, their share capital is wholly owned by the Treasury. Payments to these bodies for services provided and the dividend payments received are material.

Jon Cunliffe is a Director of Partnerships UK plc which is a public private partnership with a majority private sector shareholding. The company receives payment for work done on a commercial basis for the Treasury and other Government departments. It does not receive any grant in aid from HM Treasury.

## **28. ACCOUNTABILITY DISCLOSURES**

### **28.1 Claims waived or abandoned**

HMT administration costs include £168,453.83 arising from claims waived or abandoned. Of these no single claim exceeded £100,000.

### **28.2 Disposal of an asset at less than market rate**

The Property Advisors to the Civil Estate (PACE), of which the OGC is the successor body, entered into negotiations with a charity for the sale of a 10 acre site in North London on which the charity would construct a multi-faith centre and gardens. The sale was linked to the disposal of a second parcel of PACE land within the same local authority boundary. It was considered that if the sale to the charity was to proceed enabling them to build the multi-faith centre on 7 acres and requiring the charity to transfer the further 3 acres to a housing association for social housing, this would facilitate PACE obtaining planning permission for a larger area of private residential housing development on PACE's second site. The negotiations led to PACE and the charity concerned signing a contract in January 2000 that would result in the land being sold below market price. This would effectively make a gift of approximately £5 million to the charity compared to the value of the land with its prior planning status. In so doing, the enhanced value of the second linked parcel of land would then more than recover the estimate of the value of the gift. The gift and circumstances were notified to Parliament via a Departmental Minute in March 2000.

In autumn 2000, shortly before the scheduled completion of the sale, it emerged that the charity was contemplating selling part of the land to private developers, in order to raise funds, and reducing the scale of its centre. From pre-contract discussions, PACE and the local authority both believed that, except for the 3 acres to be transferred for social housing, the charity intended to use all of the land for the construction of the centre. Further, the charity had made application to the Millennium Commission for a grant towards the construction of the centre, but an issue arose over the value of the land that the Millennium Commission would count towards the match funding condition for payment of the grant. At the time PACE believed there may have been misrepresentation and therefore refused to complete the contract. The charity sued for specific performance, leading to the proceedings which OGC then conceded in July 2002. The sale is now expected to be completed in November 2002.

## **29. POST BALANCE SHEET EVENTS**

### **29.1 Railtrack investments**

HMT holds investments in Railtrack in the form of fixed interest rate bonds. At a bondholder meeting held on 7 August bondholders voted to accept the resolution that bonds would be redeemed early, upon the acquisition of Railtrack by Network Rail. Railtrack moved out of administration by way of acquisition by Network Rail on 3rd October 2002. Consequently the investment was disposed of on 10th October 2002.

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

HM Treasury has entered into a 35 year PFI contract with Exchequer Partnership (EP) in respect of the core

Treasury's former headquarters building, Government Offices Great George Street ("GOGGS"). EP is a consortium consisting of Bovis Lend Lease Holdings Ltd, Chesterton International PLC and Stanhope PLC.

The building is now divided into two parts. EP has refurbished the west end, which is now known as 1 Horse Guards Road, and will provide the core Treasury with serviced office accommodation there. It was taken into operational service with effect from July 2002. HMT are to pay to EP a unitary payment of £14.9 million per annum for the 35 year term (subject to annual increases for indexation and deductions for non-availability and underperformance), starting in August 2002. The net present value of these payments over the lifetime of the contract is estimated at £170 million before deductions. At the end of the 35 year contract the whole property will revert to the Secretary of State for nil consideration.

The east end of the former GOGGS building was in operational use until vacated by Treasury in August 2002. It is expected that EP will negotiate a contract with another public sector body or bodies for the supply of refurbished serviced office accommodation in the east end of GOGGS. As at 31 March 2002, the GOGGS land asset (both west and east ends) is recognised on the HMT balance sheet, while the buildings were considered to be impaired prior to their refurbishment and are valued at nil. For further details see note 12.2. Under Financial Reporting Standard 5, full recognition of the PFI contract was not required until GOGGS was brought back into use in July 2002. The treatment that HMT intends to adopt in its resource accounts for 2002-03 onwards is as follows.

The refurbished buildings will be capitalised as an addition to tangible fixed assets from July 2002, at fair value, with a related long term creditor. The unitary payment stream will be allocated between repayment of the creditor and revenue. 1 Horse Guards Road was valued by DTZ Tie Leung at £89.5 million as at 31 October 2002. It will be professionally revalued at 5 yearly intervals, and depreciated over its estimated useful economic life.

The east end land will continue to be recognised on the Treasury's balance sheet whilst refurbishment takes place.

### **29.3 Recovery of HMS Sussex**

A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of HMS Sussex, which sank in the Western Mediterranean in 1694 carrying gold and silver coins valued at the time at £1 million. The wreck and its contents are legally the property of Her Majesty's Government.

A licencing agreement was signed on 27 September 2002 between the Disposal Services Agency of the Ministry of Defence, on behalf of HM Government, and Odyssey. Under the agreement a share of the net proceeds of sale of coins and other marketable artefacts will be shared between the two parties in line with the following limits:

- Up to \$45m – 80 per cent to Odyssey, 20 per cent to HM Government;
- Between \$45m and \$500m - 50 per cent each to Odyssey and HM Government;
- Proceeds in excess of \$500m - 40 per cent to Odyssey and 60 per cent to HM Government.

HM Treasury will receive the net proceeds of the sale of the gold and silver coins.

Other income received by HM Government will include 10% of Odyssey's net income derived from intellectual property rights, and 3% of Odyssey's gross sales of merchandise that utilises the name "HMS Sussex", which will be accounted for by the Disposal Services Agency.

The value of potential proceeds for HM Treasury from this venture is not yet known nor indeed is estimable until the initial stages of exploration and recovery have been completed. At this stage therefore no income or asset has been recognised in HM Treasury's accounts. Expenses (including legal costs) incurred by HM Treasury on this project will be borne by the Treasury Request for Resources.

### **29.4 Troika Insurance Company Limited**

From 1st November 2002, Troika ceased to offer third party war and terrorism cover to the UK aviation industry. This followed a decision by the European Union that commercial cover was reasonably available again.

## 30. FINANCIAL INSTRUMENTS

### Risk management objectives and policies

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

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

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

### Liquidity risk

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

### Interest rate risk

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

### Currency risk

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

### Credit risk

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

### Financial liabilities

All of HM Treasury's financial liabilities are interest free, and mature within one year or less, or on demand, except for certain provisions as described below. The maturity profile of provisions is set out in note 20. The Early Retirement Provision and the Surplus Leasehold Property Provision have been discounted for the time value of money and therefore are treated as carrying interest at a fixed rate of 6%. The Specific Dilapidations and Legal Costs provisions have not been discounted and therefore are treated as interest free. All material financial liabilities are carried at their fair value, and are denominated in sterling.

### Financial assets

The department's financial assets comprise its investments as set out in note 13, long term debtors as set out in note 17 and cash at bank and in hand as set out in note 18. All financial assets are non-interest bearing, except for the Partnerships UK Loan Stock, which pays a nominal rate of interest of 6%, and the Railtrack Bonds (disposed of since the year end) which pay nominal rates of interest of 9.125% and 9.625%. Cash at bank and in hand is available on demand. The fixed asset investments are held for an unlimited term. The policy on current investments is that they should be disposed and therefore have been assumed that they will be held for less than 12 months. Long term debtors are expected to be realised in 2 to 3 years. All material financial assets are denominated in sterling.

**Fair value of financial assets**

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

	<b>Carrying value 31 March 2002 £000</b>	<b>Estimated fair value 31 March 2002 £000</b>
Public Dividend Capital in Royal Mint (note 13.1b)	5,500	46,004
Partnerships UK Loan Stock (note 13.1c)	15,594	Between 13,367 and 17,012
Public Dividend Capital in OGCbuying.solutions	350	10,633

Public Dividend Capital in the Royal Mint and OGCbuying.solutions is carried at historical cost in accordance with the RAM. The net asset value from the latest accounts is treated as fair value. The investment in Partnerships UK Loan Stock is carried at historical cost in the absence of a reliable market value. The estimated range of fair values for the purpose of this disclosure has been derived from the nominal value of £15.594 million and the coupon interest rate of 6% at a range of yields from 5.5% to 7%. A yield of 5.5% implies a fair value of £17.012 million, while a yield of 7% implies a fair value of £13.367 million.