



HM TREASURY

The Government's expenditure plans

Chancellor of the
Exchequer's Departments

2000-2001 to
2001-2002

HM Treasury

April 2000

Cm 4615

This is part of a series of departmental reports (Cm 4602 to 4621) accompanied by the document Public Expenditure: Statistical Analyses 2000-2001 (Cm 4601), which present the Government's expenditure plans for 2000-2001 to 2001-2002

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Departmental Report
of the
Chancellor of the
Exchequer's Departments

The Government's Expenditure Plans
2000-2001 to 2001-2002

for:

HM Treasury

Government Actuary's Department

National Investment and Loans Office

National Savings

Office for National Statistics

Registry of Friendly Societies

Financial Transactions with
European Community Institutions

Presented to Parliament by the Chancellor of the Exchequer and
Chief Secretary to the Treasury by Command of Her Majesty
7 April 2000

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Introduction

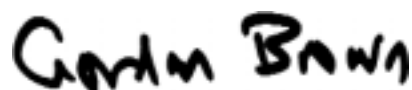
By the Chancellor of the Exchequer, Rt Hon Gordon Brown MP

Over the past 3 years the Government has been building a platform of stability. This prudence is for a purpose: on these stable foundations, the Government is working hard to build opportunity and security for hard working people. Over the last year, we have seen:

- **monetary and fiscal stability.** Based on prudent and cautious assumptions audited by the National Audit Office we are on course to meet our two strict fiscal rules. The public finances are now firmly under control, with borrowing cut by £40 billion in our first three years. Growth is forecast to be stronger this year than last, and inflation is at historically low levels;
- the Government's commitment to **rebuild Britain's public services.** We have shown that prudence is for a purpose by providing an immediate additional boost of £2 billion for the NHS in 2000-01, and real growth of over 6% a year for the years up to 2003-04 - by far the biggest growth of any period in the 50 year history of the NHS;
- an extensive range of measures to meet **the productivity challenge** and removing the barriers to Britain becoming the best competitive environment for business. These include cutting corporation tax to its lowest ever level; strengthening the regulatory framework; a new R&D tax credit and employee share ownership scheme; promoting skills with new Individual Learning Accounts; extending capital allowances for small and medium sized enterprises; promoting e-commerce, and setting over 600 new output and efficiency targets to improve public sector productivity;
- **increasing employment opportunity for all.** We have created an extra 800,000 jobs and more than halved youth and long-term unemployment since coming into office. More people are in work than ever before. The National Minimum Wage, Working Families Tax Credit, childcare and disabled persons tax credits and the lowest basic rate of income tax for 70 years have all been introduced to make work pay. And a series of measures has extended previous initiatives. For example, the new ONE service combines benefits and employment advice, a new gateway approach is helping 18-24 year olds with job search, careers advice and guidance; and the Innovation Fund is backing good ideas for improving the New Deal for the unemployed.
- **working hard to build a fairer society.** We are cutting taxes for hard working families and an extensive programme is under way to tackle the causes of poverty, especially child poverty, which the Government is committed to abolishing within 20 years.
- **protecting the environment.** Key elements of our strategy cover action to reduce greenhouse gases; supporting integrated transport policy by addressing emissions and ensuring that people have good alternatives to road use; policies to tackle land use and urban regeneration, and to improve the quality of river and drinking water.

The challenge in the period ahead is to build on this platform, as we work to build a stronger, fairer Britain.

Finally, and on behalf of all Treasury Ministers, I would like to thank the officials in these six departments. Without their dedication and hard work the achievements in this report would not have been possible.



GORDON BROWN

Rt Hon Gordon Brown MP
Chancellor of the Exchequer



Chief Secretary to the Treasury



Rt Hon Andrew Smith MP

- Public expenditure planning and control (including local authorities and nationalised industries finance).
- Value for money in the public services, including Public Service Agreements.
- Department Investment Strategies including Capital Modernisation Fund and Invest to Save budget.
- Public/Private Partnerships including Private Finance Initiative.
- Procurement policy.
- Public sector pay, including parliamentary pay, allowances and superannuation.
- Presentation of economic policy and economic briefing.
- Welfare reform.
- Devolution.
- Strategic oversight of banking, financial services and insurance.
- PSX (Public services and expenditure), QFL (Forward Legislation), GL (local government), HS (home and social affairs), and EA (economic affairs) committees.
- Resource Accounting and Budgeting.

Paymaster General



Dawn Primarolo MP

- Minister responsible for Inland Revenue, Customs and Excise and the Treasury and with overall responsibility for tax and the Finance Bill.
- Personal taxation, NI contributions, tax credits.
- Business taxation, including corporation tax.
- Capital gains tax.
- Inheritance tax.
- VAT.
- European and International tax issues.

Financial Secretary



Stephen Timms MP

- Support to the Chief Secretary on Departmental PSAs.
- Growth, with responsibility for the growth unit and productivity agenda.
- Small firms and enterprise policy.
- ESOPs.
- Science, Research and Development.
- Welfare to Work issues.
- Competition and deregulation policy.
- Export Credit.
- Customs and Excise taxes, except VAT.
- Environment issues, including Climate Change levy and other economic instruments.
- Taxation of company cars and road fuel, Vehicle Excise Duty.
- North Sea Taxation.
- Support to the Paymaster General on the Finance Bill.
- Parliamentary financial business, PAC, NAO.
- LEG Committee (Current Legislation).
- Support to the Chief Secretary on the Financial Services Bill.

Economic Secretary



Melanie Johnson MP

- Banking, financial services and insurance and support to the Chief Secretary on the Financial Services Bill.
- Foreign exchange reserves and debt management policy.
- Support to the Chancellor on EU and International issues.
- EMU business preparations.
- Economic reform in Europe.
- Responsibility for National Savings, the Debt Management Office, National Investment and Loans Office, Office of National Statistics, Royal Mint and the Government Actuary's Department.
- Financial services tax issues (eg ISAs, stamp duty, pensions).
- Support to the Paymaster General on the Finance Bill.
- Treasury interest in general accountability issues. Support to the Chief Secretary on Resource Accounting and Budgeting.
- Charities and charity taxation.
- Womens' issues.

Chancellor of the Exchequer's Departments -Summary of spending plans (£million)

	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 outturn	1998-99 outturn	1999-2000 estimated outturn	2000-01 plans	2001-02 plans
HM Treasury (including OGC)	141	143	239	233	186	222	221	184
Customs and Excise	889	862	858	864	867	939	884	908
Inland Revenue	1,573	1,643	1,626	1,641	1,701	1,853	1,725	1,909
Government Actuary's Department	0	#	#	#	#	1	1	1
National Investment and Loans Office	-1	-1	-1	-1	-2	#	#	#
National Savings	197	193	179	175	171	173	173	173
Office for National Statistics	93	103	110	95	97	105	137	187
Registry of Friendly Societies	3	2	6	4	-3	3	3	0
Office of HM Paymaster General	-2	-1	1	0	0	0	0	0
Total Chancellor of the Exchequer's departments	2,894	2,946	3,019	3,011	3,018	3,295	3,141	3,261
Financial transactions with European Community Institutions	1,268	3,370	1,817	2,153	3,572	2,580	2,690	2,457



Rt Hon Gordon Brown MP
Chancellor of The Exchequer

HM Treasury

A photograph of a wooden sign for HM Treasury. The sign is rectangular and mounted on a wooden frame. The text "H.M. Treasury" is written in a white, cursive script on a light-colored background. The sign is slightly tilted and has a shadow cast below it.

H.M. Treasury

Section A: HM Treasury

1.1

The Government's central economic objective is to achieve high and stable levels of growth and employment. The Treasury plays a key role in delivering this objective.

The Treasury is working to:

- **achieve greater economic stability.**

This is the essential foundation for achieving long term growth and high levels of employment. The Government has accordingly put in place a new framework for conducting monetary and fiscal policy to deliver low inflation and sound public finances which together provide the best possible climate for investment and employment;

- **improve the performance of the economy in the public and private sectors.**

The Treasury has set out a clear strategy to close the productivity gap between Britain and its main competitors, focussing on competition, enterprise and innovation, skills investment and public sector efficiency;

- **improve the effectiveness and efficiency of public spending and the quality of service it buys.**

Public spending accounts for almost 40 per cent of national income, so it is important to obtain value for money.

1.2

The Treasury's aim and objectives are summarised at the end of this section. Section 3 gives more details of how those objectives are being delivered.

1.3

To deliver its objectives effectively the Treasury

- is increasingly focussed on delivering **microeconomic** change;
- is **engaging extensively with others** - in business, the academic world, in other parts of government and abroad;
- is developing the **professionalism** of all its staff; and
- is providing them with the tools and the working environment they need to **perform more effectively**.

1.4

A new Office of the Treasury, the **Office of Government Commerce**, is to be created on 1 April 2000. The Treasury itself remains a fairly small Department, employing about 900 staff. This allows it to take a highly **flexible, innovative and joined-up approach** to its work, reflecting the needs of the Government and of the economy. Details of developments in Treasury's own business are in sections 3.10 and 3.11. The developments described above, and others, put the Treasury at the heart of the **Civil Service reform** and **Modernising Government** initiatives (see section 2).

AIM AND OBJECTIVES

1.5

The Treasury's objectives are set out in Chart 1A below. These objectives are backed by specific targets published in a Public Service Agreement (see Chapter 2).

CHART 1A: The 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

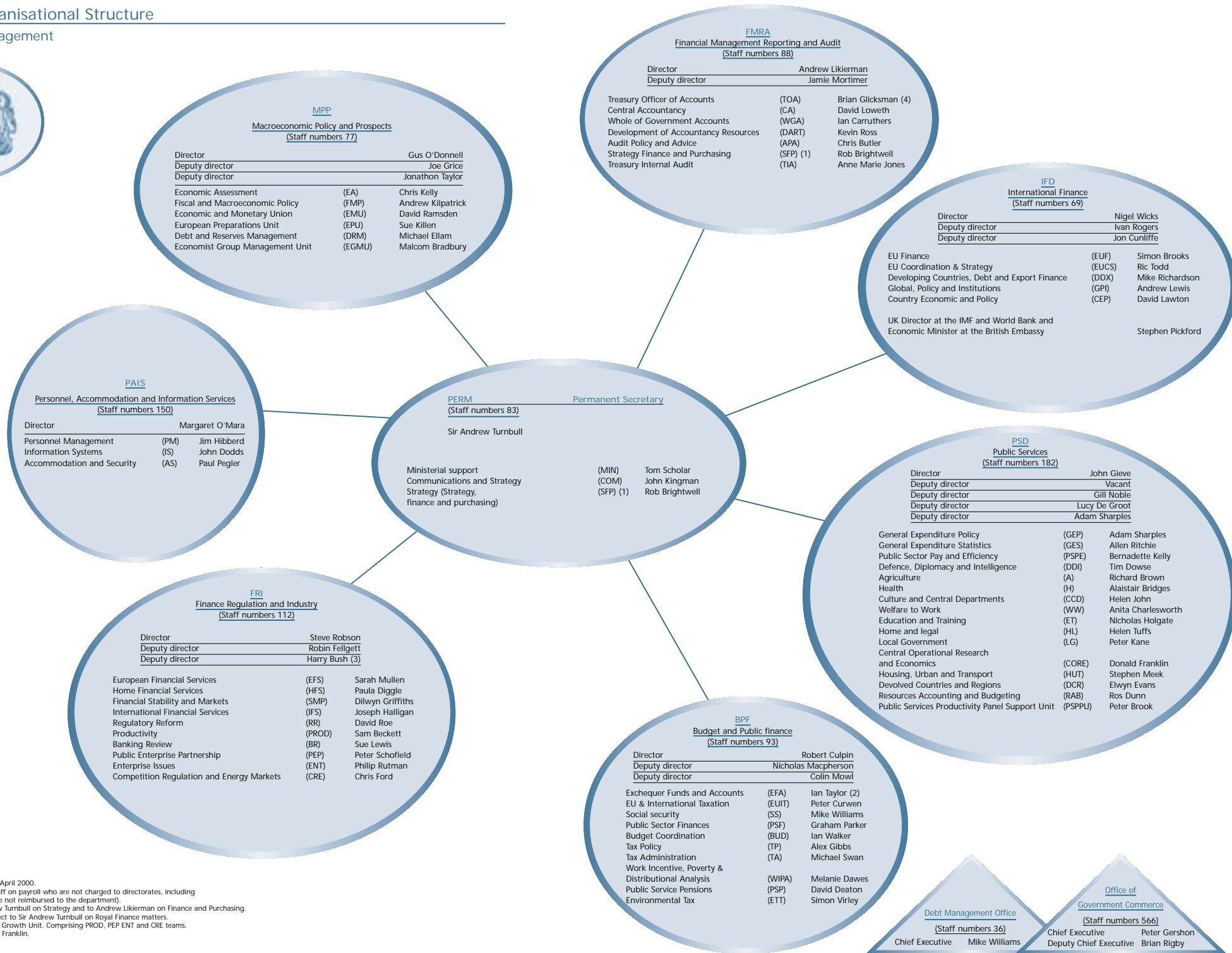
1. maintaining a stable macroeconomic framework with low inflation
2. maintaining sound public finances in accordance with the Code for Fiscal Stability
3. improving the quality and cost effectiveness of public services
4. increasing the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, competition, innovation, enterprise, better regulation and increased employability
5. promoting a fair and efficient tax and benefit system with incentives to work, save and invest
6. maintaining an effective accounting and budgetary framework and promoting high standards of regularity, propriety and accountability
7. securing an efficient market in financial services and banking with fair and effective supervision
8. arranging for cost effective management of the government's debt and foreign currency reserves and the supply of notes and coins
9. promoting international financial stability and the UK's economic interests and ideas through international cooperation as a way of increasing global prosperity including seeking to protect the most vulnerable groups

In pursuing these objectives the Treasury will:

maintain a professional, well motivated and outward looking organisation committed to open and accountable conduct of policy both here and abroad and manage its running costs efficiently, economically and effectively.

Chart 2A: Organisational Structure

Directorate Management



Note: Staff numbers are as at 1 April 2000.
(There are a further 39 staff on payroll who are not charged to directorates, including secondaries whose costs are not reimbursed to the department).
(1) Reports to Sir Andrew Turnbull on Strategy and to Andrew Likierman on Finance and Purchasing.
(2) Ian Taylor reports direct to Sir Andrew Turnbull on Royal Finance matters.
(3) Heads Enterprise and Growth Unit. Comprising PROD, PEP ENT and CRE teams.
(4) Supported by Donald Franklin.

Delivering better public services: progress

2.1

In setting out its spending plans for 1999-2002, the Government set new priorities for public spending with significant extra resources in key services such as education and health. The Government also committed to linking this extra investment to modernisation and reform to raise standards and improve the quality of public services. The White Paper, "Public Services for the Future: Modernisation, Reform, Accountability" (Cm 4181), December 1998 and its supplement published in March 1999 (Cm 4315) delivered this commitment by publishing for the first time measurable targets (PSAs) for the full range of the Government's objectives.

2.2

The White Paper, "Modernising Government", published in March 1999 is a statement of the Government's vision for reform and modernisation of the delivery of public services. These principles provide a means of achieving the results of the PSA targets.

Resources and organisation

2.3

The Departmental Expenditure Limit for 2000-01 is some £220 million. Of this, just over £75 million relates to the new Office of Government Commerce (OGC). A further £75 million relates to items of programme expenditure, such as the costs of minting UK coins, and payments to the Financial Services Authority. The running costs of the Treasury comprise the remaining £70 million. Around half of this figure goes on pay for the core Treasury and Debt Management Office's 930 staff.

2.4

The department's organisational structure is shown in Chart 2A and the directorates with lead responsibility for each of the Treasury's objectives are set out in Chart 2B.

Organisational Changes

2.5

There has been some minor reorganisation of Treasury teams to take account of developments and align responsibilities with new priorities:

- A new Environmental tax team has responsibility for environmental and transport tax issues, reflecting the recent rapid expansion in the size of the environmental tax agenda.

- The Financial Regulation and Industry Directorate has been reorganised to reflect the focus on financial stability, legislation and international architecture more effectively.
- Teams have been reformed to provide new perspectives on agriculture, environment and rural policy; and on housing, urban and transport policy.
- A project team has been formed to develop Whole of Government Accounts.

2.6

Two Project teams are steering primary legislation through Parliament:

- The Financial Regulatory Reform Bill will provide the framework of statutory powers needed by the new single regulator, the Financial Services Authority.
- The Government Resources and Accounts Bill modernises the whole framework for Government accounting and budgeting, bringing standards up to those applying in the rest of the economy.

Statistics Commission

2.7

In the White Paper "Building Trust in Statistics", the Government set out its plans for enhancing the integrity of National Statistics.

2.8

The key element of the structure of National Statistics is the Statistics Commission, which will give independent, reliable and relevant advice on National Statistics to Ministers, and provide an additional safeguard on the quality and integrity of National Statistics.

2.9

Members of the Statistics Commission will be appointed by the Chancellor, as Minister for National Statistics. The Statistics Commission will be an advisory non-departmental body, sponsored by the Treasury, but will be independent of both Ministers and the producers of National Statistics.

CHART 2B: The Treasury's Directorates

 Directors Lead Responsibility for Objectives

MACROECONOMIC POLICY AND PROSPECTS
Gus O'Donnell

Maintaining a stable macroeconomic framework with low inflation

 Arranging for cost effective management of the government's debt and foreign currency reserves and the supply of notes and coins

INTERNATIONAL FINANCE
Nigel Wicks

 Promoting international financial stability and the UK's economic interests and ideas through international cooperation as a way of increasing global prosperity including seeking to protect the most vulnerable groups

BUDGET AND PUBLIC FINANCES
Robert Culpin

Maintaining sound public finances in accordance with the Code for Fiscal Stability

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

PUBLIC SERVICES
John Gieve

 Improving the quality and cost effectiveness of public services

FINANCIAL MANAGEMENT REPORTING AND AUDIT
Andrew Likierman

Maintaining an effective accounting and budgetary framework and promoting high standards of regularity, propriety and accountability

 Managing its running costs efficiently, economically and effectively

FINANCE REGULATION AND INDUSTRY
Steve Robson

Increasing the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, competition, innovation, enterprise, better regulation and increased employability

 Securing an efficient market in financial services and banking with fair and effective supervision

PERSONNEL, ACCOMMODATION AND INFORMATION SERVICES
Margaret O'Mara

 Maintaining a professional, well motivated and outward looking organisation committed to open and accountable conduct of policy both here and abroad

Progress so Far

2.10

The table below reports on the department's performance to date in meeting its PSA targets for each of its objectives. More detailed commentary on achievements against each objective in 1999-00 is set out in Chapter 3.

TABLE 2A: PERFORMANCE IN MEETING PSA TARGETS

Objective 1: Maintaining a stable macroeconomic framework with low inflation			
PSA targets	Performance Indicator	Target outturn	Latest outturn
(i) maintain effective arrangements for keeping inflation at the target level set for the Monetary Policy Committee of the BoE of 2½ per cent.	rate of 12-month RPIX inflation averaged over previous 12 months.	2.5%.	2.2% (February 2000).
(ii) reduce the differential between yields on German and British long term government debt.	12-month average of daily differential between German and UK 10-year bond yields (as measured by par yields calculated by the Bank of England) compared to previous year.	less than 89 basis points by March 2000.	41 basis points (February 2000).
(iii) reduce the variability of output and employment compared with previous cycles.	maximum output gap at peak and trough of the cycle, based on HM Treasury's published estimates (as a percentage of GDP).	peak < 3.3% trough > -3.7% (average for last four cycles).	peak 0.6% trough -0.3% (since first half of 1997).
Objective 2: Maintaining sound public finances in accordance with the code for fiscal stability			
PSA targets	Performance Indicator	Target outturn	Latest outturn
(iv) ensure current receipts at least match current spending on average over the cycle.	current budget surplus.	surplus > 0.	+£7.5bn for 1998-99 +£17.1bn for 1999-00.
(v) ensure net public sector debt as a percentage of GDP falls towards 40% or below over the cycle.	net debt ratio.	< 40%.	39.7% for 1998-99 37.1% for 1999-00.
(vi) ensure the Control Total for 1997-98 and 1998-99 and the Departmental Expenditure Limits over the three years of the CSR period are adhered to.	(a) Control Total for 1998-99 outturn.	< £274.9bn.	£272.2bn (est) (February 2000).
	(b) DEL outturn for 1998-00 against plan.	< £179.9bn.	-

Objective 3: Improving the quality and cost effectiveness of public services

PSA targets	Performance Indicator	Target outturn	Latest outturn
(vii) ensure that all departments are set testing output and efficiency targets by the end of 1998 and work with them to ensure that they meet their targets by their deadlines.	% of departmental targets with deadlines within the reporting period that are achieved.	–	90% (February 2000).
(viii) improve the productivity of the public services year by year.	% of public services demonstrating an improvement in productivity each year.	–	On course to meet targeted efficiency improvements covering well over half of public expenditure (excluding transfers).
(ix) use the Departmental Investment Strategies to be produced by Spring 1999 and the Capital Modernisation Fund to double net public investment and improve the public capital stock by 2002.	public sector net investment as a % of real GDP.	1.2% of GDP by 2002.	0.6% (February 2000).
(x) gain acceptance for the standard framework for public private partnership contracts by the end of 1999.	publication of standard contractual terms by end of May 1999: target date was deferred until the end of the second quarter, in order to gain acceptance of the standard contractual terms.	publication.	published 14 July 1999.
(xi) improve value for money in public procurement year on year.	volume of low value transactions ordered and paid for through the use of the Government Procurement Card.	volume 150,000 value £15m for 1999-00.	volume 190,000 value £23.1m (to February 2000).

Objective 4: Increasing the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, competition, innovation, enterprise, better regulation and increased employability.

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xii) put in place policies to raise the rate of growth of potential output above the current estimate of 2.25%.	change in estimated trend rate of growth to the end of the economic cycle, from 1997 base, based on HM Treasury's published estimates.	>2.25%.	2.25% to 2.5% neutral forecast (November 1999).
(xiii) put in place policies to narrow the productivity gap relative to other industrialised countries over the cycle (joint DTI target (x)).	growth in productivity since 1997 over the economic cycle, based on HM Treasury's published estimates.	Reduction in productivity gap over the cycle from a baseline of: 1997 output/worker UK 100 US 134 F 120 G 112 J 105 1996 output/hour UK 100 US 124 F 131 G 122 J na	Percentage reduction in productivity gap from the baseline. The productivity gap widened in 1998. The gap will fluctuate from year to year, partly because countries will be at different stages of the economic cycle. The early success of the Government's employment policies will tend to depress productivity growth in the short-term. Many of the productivity policies the Government has announced since 1997 have yet to take effect. Moreover, a large number are only being introduced this year.
(xiv) secure an increase in the number of successful high growth business start ups (joint DTI target (iv)).	number of firms with a turnover above £1m, or 10 employees, 4 years after start up.	from 15,300 to 20,000 by 2005.	Provisional estimate suggests there has been a 10% increase (firms established in 1995 compared to 1994).

Objective 4: continued

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xv) put in place policies to reduce structural unemployment over the cycle.	ILO unemployment rate compared to rate at equivalent point in previous cycle, based on HM Treasury's published estimates of the size of the output gap.	less than 8.4% (January-March 1991).	5.9% (September-November 1999).
(xvi) put in place policies to allocate all proceeds of the windfall tax so that, by May 2002, 250,000 under 25 year olds move off benefit and into work (joint DfEE, target (ix)).	number of jobs secured by New Deal 18-24 year olds as measured by the New Deal Common Evaluation Database.	250,000 by May 2002.	191,600 (January 2000).

Objective 5: Promoting a fair and efficient tax and benefit system with incentives to work, save and invest

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xvii) maintain a minimum income guarantee for pensioners and severely disabled people (joint DSS target (iii)).	(a) value of the minimum income guarantee for severely disabled people compared to RPI.	minimum income guarantee to be implemented in April 2001.	on course to meet the target by 2001.
	(b) value of the minimum income guarantee for pensioners relative to earnings.	annual outturn plus average earnings.	achieved.
(xviii) reduce the number of households facing marginal deduction rates over 70% by 2001-02.	number of households facing marginal deduction rates over 70%.	less than 740,000 by April 2002.	715,000 (November 1999).
(xix) provide an income guarantee of at least £190 a week for working families by October 1999.	value of the income guarantee.	at least £190 pw by October 1999.	£200.08 pw (March 1999).
(xx) continue to develop the tax system so that it underpins the strategy on sustainable development and delivers environmental objectives (joint IR target (vi) and C&E target (vii)).	report at least once a year on estimates of the environmental impact of the Government's tax reforms.	annual report.	Included in Pre-Budget Report.

Objective 6: Maintaining an effective accounting and budgetary framework and promoting high standards of regularity, propriety and accountability

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xxi) introduce departmental resource accounts in 1999-2000.	percentage of departments meeting trigger points 2 and 3 by due date compared to 100% target.	TP2 100% by June 1999. TP3 100% by March 2000.	TP2 100% achieved (June 1999) TP3 98% (March 2000).
(xxii) get Parliamentary approval to replace Estimates and Appropriation accounts on same basis.	all departments to meet the requirements of trigger point 4 (production of shadow resource estimates for 2000 -01) by May 2000.	100%.	a memorandum including a report on TP4, will be submitted to Parliament before the Summer recess.
(xxiii) move to a resource based budgeting system in 2000.	conduct 2000 spending review and publish outcome in resource terms.	RAB in place by April 2000.	preparations on target (February 2000).
(xxiv) publish whole of government accounts, subject to the results of the current study, for 2001-02.	(a) scoping study and development of project plan in progress. Completion due in first quarter of 1999/2000.	report by 1999-00 Q1.	achieved
	(b) published Whole of Government Accounts based on the European System of Accounts (ESA).	agreed map of ESA classifications by Q4 1999-00, published accounts by Q4 2002-03.	on track.

Objective 7: Securing an efficient market in financial services and banking with fair and effective supervision

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xxv) complete new regime for financial regulation under a single regulator by 2000.	passage of legislation and completion of the new system of financial regulation during the 1999-2000 Parliamentary session.	Act of Parliament.	Bill completed House of Commons stages and was introduced into the House of Lords in early February 2000.

Objective 8: Arranging for cost effective management of the Government's debt and foreign currency reserves and the supply of notes and coins

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xxvi) minimise the cost of holding the government's foreign currency reserves, while reducing risk.	Cost of holding foreign currency reserves compared to target of zero.	£0.	£94m (December 1999)
(xxvii) minimise the cost and risk of financing the government's borrowing.	Mean annual cost of government debt compared to 7.6% in 1996-97.	Less than 7.6%.	7.5% for 1998-99 6.5% forecast for 1999-00 (Budget 2000).

Objective 9: Promoting international financial stability and the UK's economic interests and ideas through international cooperation as a way of increasing global prosperity including seeking to protect the most vulnerable groups.

PSA targets	Performance Indicator	Target outturn	Latest outturn
(xxviii) make the International Finance Institutions more effective, transparent and accountable.	more openness in day to day operations of the IFIs, with evaluation arrangements put in place, more staff papers published and new arrangements for cooperation between IFIs and with regulators introduced.	–	see paragraphs 3.9.3 - 3.9.6.
(xxix) improve the quality of surveillance of international economies.	IMF surveillance procedures to assess whether countries are complying with: <ul style="list-style-type: none"> • the code of good practice on fiscal policy; • the code of good practice on monetary and financial policy; • the special data dissemination standard; 	–	see paragraphs 3.9.7 - 3.9.10.
(xxx) maintain discipline on the EU budget, tackle waste and fraud, and maintain the UK abatement.	keep the budget each year within the Financial Perspective agreed as a result of the Agenda 2000 negotiations.	–	see paragraphs 3.9.11 - 3.9.13.
(xxxi) pave the way for successful and affordable enlargement of the EU.	decisions on EU policies and negotiating positions which increase economic gains and limit budgetary consequences from enlargement.	–	see paragraph 3.9.14. .
(xxxii) ensure that the UK is ready for the introduction of the euro from 1999 and make proper preparations so as to create a genuine option of joining the single currency should government, Parliament and the people so decide.	level of preparations for the euro among small and medium sized enterprises (SMEs), as measured by the Treasury's regular survey, from 13% to 15% by mid 1999, and to 17% by the end of the year.	17% -percentage of SMEs who have made preparations for the Euro.	14% (April 1999) - (see paragraph 3.9.13).
(xxxiii) raise the number of highly indebted poor countries receiving debt relief, as set out in the Mauritius mandate.	Percentage of countries eligible for additional relief under the HIPC initiative to reach their decision points by 2000 compared to 75% G7 target announced at the Cologne Summit.	75% by end 2000 -(number of countries may change).	10% by March 2000 20% expected by April 2000.

Increasing the Productivity of Operations

Manage its running costs efficiently, economically and effectively

PSA Targets	Performance Indicator	Target Outturn	Current Outturn
deliver 2.5% annual efficiency gains and secure at least 2.5% savings of running costs in real terms each financial year from 1997-98.	The Treasury will develop measures of improvements in efficiency in delivering the Treasury's outputs over the 3 year CSR period.	–	See text for discussion of efficiency improvements. However, it has not proved possible to measure aggregate Treasury output.
introduce robust system by early 1999 for recording sickness absence.	monthly returns to Directors.	reports.	achieved.

Maintain a professional, well motivated and outward looking organisation committed to open and accountable conduct of policy both here and abroad

PSA targets	Performance Indicator	Target outturn	Latest outturn
achieve Investors In People accreditation by 2000.	accreditation date.	accreditation by December 1999.	achieved on time.
achieve a declining trend in excessive hours worked over the years 1999, 2000 and 2001.	average weekly hours worked (cumulative percentage);	declining trend 1999-2001.	a declining trend has been achieved to December 1999.
meet targets for correspondence and Parliamentary response times.	(a) % of Parliamentary Questions answered by the due date (1998-99 session):		
	•Named day PQs	50%	35%
	•Ordinary written PQs	70%	55%
	•Lords written.	80%.	83%
			(November 1999).
	% of Parliamentary Questions answered by the due date (1999-00 session):		
•Named day PQs	50%	78%	
•Ordinary written PQs	70%	87%	
•Lords written.	80%	94%	
		(January 2000).	
	(b) % number of ministerial replies to correspondence by the due date:		
	•those referring to Treasury policy (15 days)	60%	46%
	•for answer by the Chancellor's other departments (18 days)	60%	58%
	•requiring a report from a local office (23 days).	60% by April 2000.	56% (March 2000).
complete an information strategy review by Spring 1999 which will examine internal business processes and recommend best working practices, and adopt recommendations on better inter departmental coordination.	approval of IS strategy by the Treasury Management Board.	approval by Spring 1999.	achieved.
move to electronic publishing of material hitherto published on paper.	An aggregate measure is under development.	-	-
reduce the number of unfilled vacancies by 10% by October 2000, and achieve a reduction of two weeks in the length of unfilled vacancies by December 2000 against 1999 benchmarks.	(a) percentage reduction in number of vacancies unfilled for longer than 14 days compared to average 1999 benchmark.	10%.	measures are in place to meet the target by the due date.
	(b) percentage reduction in length of vacancies.	2 weeks.	measures are in place to meet the target by the due date.

Better Quality Services

PSA Targets	Performance Indicator	Target Outturn	Latest Outturn
Rolling programme to be devised.	% of Treasury activity reviewed.	60% by March 2003.	outline plans approved September 1999.

Electronic Government

PSA Targets	Performance Indicator	Target Outturn	Latest Outturn
increase the proportion of business undertaken electronically, in accordance with government targets, to more than 25% of external communications by 2002, and set a target by 31 March 1999.	(a) non-ministerial correspondence, capability compared to zero base in 1998-99.	More than 25% capability by 2002.	100% capability.
	(b) electronic procurement of goods and services.	more than 40% by 2002.	55%

Fraud

PSA Targets	Performance Indicator	Target Outturn	Latest Outturn
a fraud policy statement will be issued for the department by 31 March.	Issue date compared to target.	Issue policy statement by March 1999.	Issued March 1999
rules on access to market sensitive information will be reviewed, and measures to update existing controls and guidelines will be implemented by December 1999.	Issue date compared to target.	Measures in place by December 1999	delayed

Procurement

PSA Targets	Performance Indicator	Target Outturn	Latest Outturn
review the application of procurement techniques to all expenditure.	% of review recommendations implemented by end 2000.	100% by December 2000.	recommendations expected by April 2000.
transact 90% of procurement of standard goods by volume to be purchased electronically by 2000.	annual % volume of goods procured electronically compared to 90% target.	90% by December 2000.	90% (February 2000).
make all payments to suppliers by electronic transfer by December 2000.	percentage of payments made electronically.	100% by December 2000.	75% (February 2000).
collaborate in joint procurement projects when they offer better value.	target to be developed subject to review recommendations above.	–	–
pay all valid invoices within contractual conditions, or 30 days of receipt of the invoice, or delivery of the goods or service, whichever is the later.	percentage of invoices paid by due date.	98% by March 2000.	97%.

MODERNISING GOVERNMENT AND CIVIL SERVICE REFORM

2.11

Modernising Government and Civil Service reform are central to many current developments in the Treasury brought out elsewhere in this Report. The following sections bring out the highlights.

Civil Service Reform

- **Stronger leadership with a clear sense of purpose** - The Department is reviewing its vision and values and internal communications and repeating 360 degree feedback for senior staff.
- **Better business planning from top to bottom** - The Department is improving its business planning system. The revised system will help to explain to staff what is changing; why; and how the changes fit together.
- **Sharper performance management** - The Department is reviewing its pay and appraisal systems taking account of best practice - see section 3.10.24. It is re-examining its management training programme to ensure it meets needs at all levels. It will continue to facilitate flexible working arrangements so that staff can strike a better balance between work and private life.
- **A dramatic improvement in diversity** - The Treasury is developing an action plan to ensure that the Treasury's staff reflects the diversity of the UK's population - see section 3.10.25.
- **A Service more open to people and ideas, which brings on talent** - The Treasury encourages all its staff to develop their potential to the full - see section 3.10.13. It will build on its existing record of interchange with other organisations - see section 3.10.30.
- **A better deal for staff** - The Treasury will implement its "Career Deal" which sets out the opportunities which it offers to all groups of staff, and which makes some new opportunities available.

Modernising Government

- **Better, more forward looking policy making**

The Treasury

- has established fourteen cross-cutting reviews to look at better ways of tackling problems across Departmental boundaries.
- has contributed to the PIU report on analysis and modelling in central government (published in January

2000 as "Adding it Up"). This identified many areas in which greater use of analysis and modelling could lead to greater focus and effectiveness in delivering objectives. The Treasury will take the lead in implementing the recommendations of the report, including the creation of a seed-corn fund to support innovative modelling and analysis.

- has undertaken a study on improving the management of cross-cutting issues.
- has designed the programme of periodic Spending Reviews to focus on the delivery of better quality public services - see section 3.3.6.
- is updating the Green Book - its guide to project appraisal and evaluation for central government departments and agencies - to ensure that all policies and programmes are clearly specified and evaluated, and that the lessons of success and failure are communicated and acted upon.
- is improving the way risk is managed in the public sector. A survey of current risk management practice in Departments and agencies and a conference to disseminate best practice have been completed. Departmental risk frameworks and work on managing business risk are being developed.
- **More responsive public services to meet the needs of citizens; Efficient, high quality public services.**
- Improving the quality and cost effectiveness of public services is a central Treasury objective. Performance against it is described in section 3.3.
- **Information Age Government.**

The Treasury has designated two officials, one at Board level, to champion the information age government agenda. One will represent departmental interests, the other a wider Government procurement interest. Further information on the Treasury's approach to information age government are in section 3.10.

Section A: HM Treasury

Commentary on achievements in 1999-2000 and plans for 2000-01 and 2001-02

Objective 1:

Maintaining a stable macroeconomic framework with low inflation

PSA Targets:

- (i) maintain effective arrangements for keeping inflation at the target level set for the Monetary Policy Committee of the Bank of England of 2½ per cent;
- (ii) reduce the differential between yields on German and British long-term government debt; and
- (iii) reduce the variability of output and employment compared with previous cycles.

The new framework for macroeconomic policy

3.1.1

The Government's framework for macroeconomic policy has been designed to avoid a repeat of past mistakes which led to boom and bust cycles and relative underperformance. In the face of the uncertainty and unpredictability of ever more rapid financial flows, the Government believes it is vital to:

- set clear, long-term policy objectives;
- adopt predictable, well-understood procedural rules for monetary and fiscal policymaking; and
- keep markets properly informed, and ensure that objectives and the relevant institutions which implement them are seen to be credible, through increased openness, accountability and transparency.

3.1.2

The Government's fiscal policy framework is discussed in relation to Objective 2. Objective 1 is concerned primarily with the monetary policy framework. Low inflation is important because it helps individuals and businesses to plan for the long term. This in turn improves the quality and quantity of long-term investment, both in physical and human capital, and helps raise productivity.

3.1.3

In recognition of the importance of price stability, the Government made this the key objective of monetary policy on entering office in 1997. The objective was defined as a single and unambiguous inflation target to avoid any risk of a return to policies (such as attempting to target both inflation and the exchange rate) that caused instability in the past. Thus a clear inflation target of 2½ per cent for the annual increase in the Retail Prices Index excluding mortgage interest payments (RPIX) was set. This target was reaffirmed in Budget 2000. To ensure that monetary policy is forward-looking and supports the Government's growth and employment objectives, the Government also made the inflation target symmetrical, so that deviations below target are treated equally seriously as those above.

3.1.4

The Government's monetary policy framework also sets out clear roles and responsibilities: the Government sets the inflation target, while the task of the Bank of England's Monetary Policy Committee (MPC) is to set interest rates to meet that target. Interest rate decisions are thus now made by independent experts, unencumbered by short-term political pressures. The MPC's decisions are based on rigorous analysis, and take into account all available information, including regional and sectoral information provided by the Bank's network of 13 regional agents which covers the whole of the UK.

3.1.5

The inflation target applies at all times, and the MPC is accountable for any deviations from it. The framework recognises, however, that any economy can at some point be subject to unexpected events which can cause inflation to depart from its desired level. In such cases, the onus is on the MPC to explain how it proposes to return inflation back to target. If inflation is more than one percentage point below or above the target, the Governor of the Bank of England is required to write an open letter to the Chancellor, explaining why this divergence has occurred, the policy action being taken to deal with it, the period within which inflation is expected to return to target, and how this approach meets the Government's objectives for growth and employment.

3.1.6

The granting of operational independence to the Bank was also accompanied by a range of measures aimed at improving the transparency and accountability of monetary policy. Minutes of the MPC's meetings are published within two weeks of its decisions, while the quarterly Inflation Report reviews recent

monetary policy decisions, assesses developments in inflation and indicates the expected approach to meeting the Bank's objectives. In addition, members of the MPC are subject to full scrutiny by Parliament, through the Treasury Committee and a specially established Lords Committee.

Achievements in 1999-2000

3.1.7

The Government's monetary policy framework has performed well over the past twelve months. In particular, the MPC has continued to demonstrate its willingness to act quickly and pre-emptively to maintain price stability:

- between late 1998 and the first half of 1999, the MPC cut rates aggressively in response to a downturn in global economic activity, action that not only lessened the risk of a significant undershoot of the inflation target but which has also been widely credited with avoiding a sharp slowdown in domestic activity; and
- since autumn 1999, the MPC has again moved pre-emptively, in four measured steps, to avoid a build up of inflationary pressures. Base rates have been raised to 6 per cent in response to the improved global economic outlook, strong growth in consumer spending and tighter labour market conditions.

3.1.8

By focussing on price stability, the Government's monetary policy framework has supported the Government's growth and employment objectives and has also allowed interest rates to be lower and more stable than in the past. Despite recent increases, official rates remain well below their latest peak and are less than half the level seen in the late 1980s and early 1990s. In addition, long-term interest rates are at historically low levels and very close to equivalent rates in Germany.

3.1.9

The merits of the Government's monetary policy framework have been acknowledged by a wide variety of commentators and bodies over the past twelve months, including parliamentary committees, and international organisations such as the International Monetary Fund. Some examples of comments made include:

"The Chancellor's decision to transfer day to day control of monetary policy to a politically independent Bank of England has been vindicated so far in the transparency and technical quality in the process of decision making". (Treasury Committee, Eighth Report, July 1999)

"...both the Chancellor and the Governor have committed themselves fully to a policy of transparency which is unprecedented in this country or, as far as we know, elsewhere". (Lord's Select Committee, Report, July 1999)

"Both the monetary and fiscal policy frameworks-with their medium-term orientation and emphasis on transparency and accountability-have delivered a high degree of policy credibility and private sector confidence... the remarkable performance of the UK economy in recent years owes much to the strengthening of policy frameworks." (International Monetary Fund, Article IV Conclusion, March 2000)

3.1.10

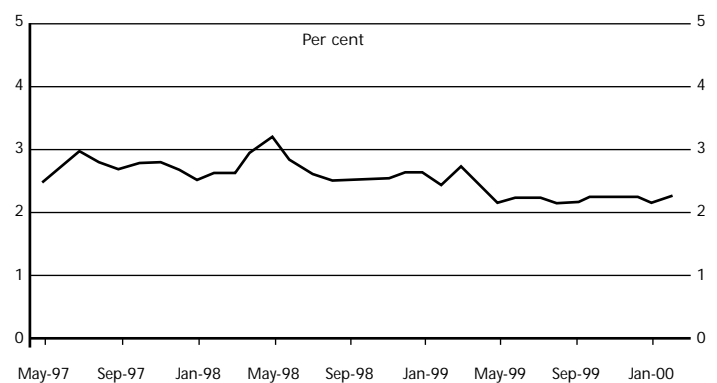
Progress against the specific PSA objectives is discussed below. A more comprehensive assessment of the performance of the new framework can also be found in the paper *The New Monetary Framework*, published by the Treasury in October 1999.

(i) Maintaining effective arrangements for keeping inflation at the target level

3.1.11

As Chart 3A demonstrates, inflation has remained close to the target level over the past twelve months. Over this period, inflation has averaged $2\frac{1}{4}$ per cent, moving in a narrow band between a low of 2.1 per cent and a high of 2.7 per cent. This modest undershoot has persisted rather longer than previously expected, despite stronger than expected growth in output and unit labour costs and the oil price more than doubling during 1999. These factors were outweighed by a sharp squeeze in business margins and continued weakness in non-oil import prices. RPIX inflation is expected to remain just below target throughout 2000, gradually returning to $2\frac{1}{2}$ per cent per cent in early 2001.

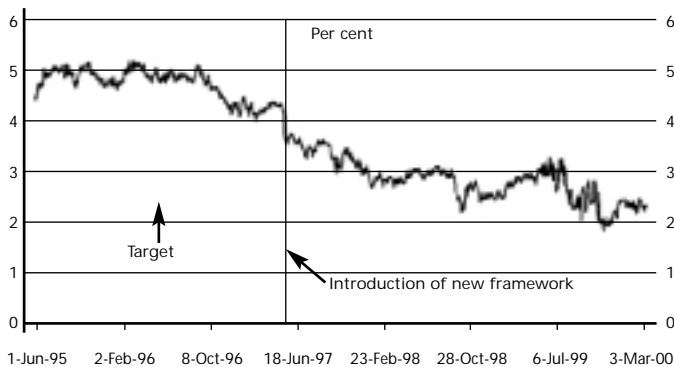
Chart 3A: Inflation performance against target



3.1.12

Survey and financial market data also suggest that inflation is expected to remain close to target in the future. The most recent monthly survey conducted by Treasury of independent forecasters shows that the average independent forecast for inflation in 2001 Q4 is 2.4 per cent. Further ahead, as Chart 3B shows, expectations of inflation ten years ahead have fallen from over 4 per cent just before the Government's monetary policy framework was established, to around per cent, consistent with the inflation target.

Chart 3B: Inflation expectations 10 years ahead



3.1.13

Using the Harmonised Index of Consumer Prices (HICP) measure, which was developed to facilitate comparison between EU countries, the UK now has the lowest inflation rate in the EU. In February UK HICP inflation was just 1 per cent, following a record low of 0.8 per cent in January.

(ii) reducing the differential between yields on German and British long-term government debt

3.1.14

The differential between yields on gilts and other countries bonds provides an indication of the credibility of the Government's monetary policy framework. In the past Germany, for example, has had a better record of maintaining low inflation than the UK and this has been reflected in lower yields on long-term German government debt than in the UK. The differential between yields on German and British long-term government debt measures, in part, how close markets think the UK's inflation performance will be to that of Germany in the future.

3.1.15

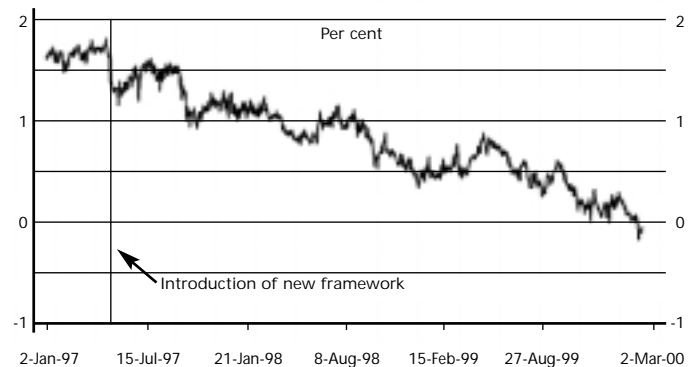
Chart 3C compares the 10-year forward rates for the UK and German government bonds. The differential fell sharply on the introduction of the Government's monetary policy framework and has since declined steadily to historically low levels. In the twelve months to February 2000 the differential averaged 41 basis points. There has thus been a significant convergence of the yields on UK bonds with those in Germany, reflecting greater market confidence in the ability of the UK's macroeconomic policy framework to deliver sustained non-inflationary growth.

(iii) reducing the variability of output and employment compared with previous cycles

3.1.16

The forward-looking and pro-active approach adopted by the MPC has not only helped to deliver price stability, but has also made an important contribution to reducing the variability of

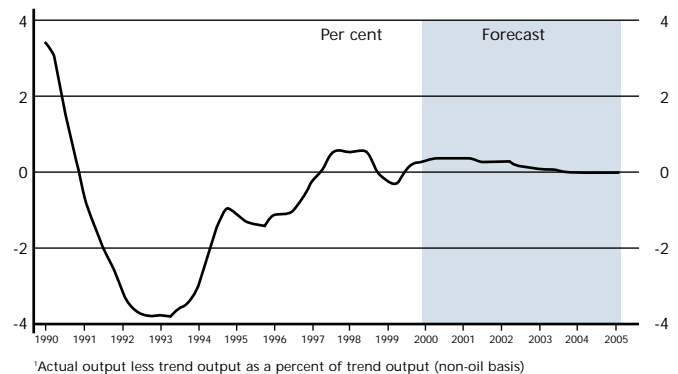
Chart 3C: UK-German 10 year yields differential



output and employment. The symmetrical nature of the inflation target means that monetary policy is neither unnecessarily loose nor unnecessarily tight. This, in effect, allows policymakers to aim for the highest level of growth and employment consistent with keeping inflation on target.

3.1.17

As Chart 3D shows, there has been a pronounced decrease in the volatility of the output gap since the Government's macroeconomic policy framework was established in 1997. Following large swings in the output gap in the late 1980s and early 1990s, the gap has reached a high of just 0.6 per cent and a low of -0.3 per cent since the first half of 1997. This outcome has also been mirrored in a decrease in the variability of employment, as measured by the standard deviation of the employment ratio.

Chart 3D: The output gap¹

Plans for 2000-01 and 2001-02

3.1.18

While the new macroeconomic policy framework has delivered good results to date, the Government recognises there is no room for complacency. The MPC must continue to perform well in order to maintain price stability and support the Government's growth and employment objectives. Wage and price setters also need to act responsibly so that real increases in wages and profits are consistent with improvements in economy-wide productivity. The Government will continue to monitor the operation of the macroeconomic policy

framework and ensure that it remains focussed on maintaining greater economic stability.

3.1.19

Significant progress has been made over the last three years, and the Treasury will need to continue to monitor the operation of the macroeconomic policy framework and ensure that it remains focussed on maintaining economic stability. The Treasury also has a role to play in building and maintaining public understanding of the macroeconomic policy framework and the benefits of low inflation. The Treasury will continue to maintain effective fiscal and monetary policy co-ordination.

Objective 2:

Maintaining sound public finances in accordance with the Code for Fiscal Stability

PSA targets:

- (iv) ensure current receipts at least match current spending on average over the cycle;
- (v) ensure net public sector debt as a percentage of GDP falls towards 40 per cent or below over the cycle;
- (vi) ensure the Control Total for 1997-98 and 1998-99 and the Departmental Expenditure Limits over the three years of the CSR period are adhered to.

The fiscal and public spending frameworks

3.2.1

The key objectives of the Government's fiscal policy are:

- over the medium term, ensuring sound public finances and that spending and taxation impact fairly, both within and across generations; and
- over the short term, supporting monetary policy, where possible.

3.2.2

Central to the Government's fiscal policy framework are five key principles of fiscal management: transparency, stability, responsibility, fairness and efficiency.

3.2.3

These principles were enshrined in the Finance Act 1998 and in the Code for Fiscal Stability, approved by the House of Commons in December 1998.

3.2.4

The Government has specified two fiscal rules that accord with these principles:

- **the golden rule (PSA target iv)** - over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- **the sustainable investment rule (PSA target v)** - public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

3.2.5

Within the Government's public spending framework, which is integrated into the fiscal framework, three-year plans have been set for all the main government departments (see 3.3.5). **PSA target vi** relates to the achievement of the Government's spending plans.

Achievements in 1999-2000

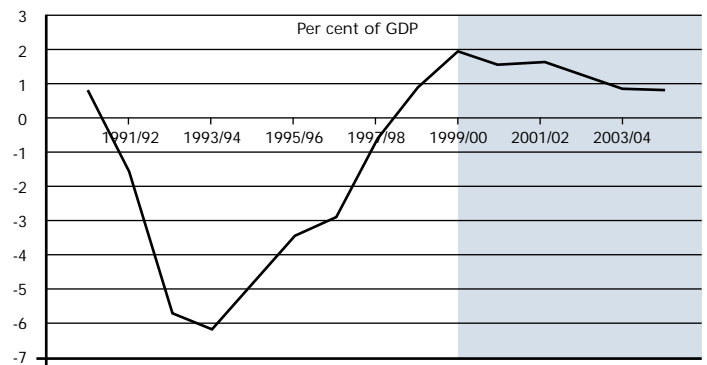
3.2.6

The public finances were in surplus for the second consecutive year in 1999-2000 and public sector debt continued to fall as a proportion of GDP. Budget 2000 confirmed that the underlying position of the public finances remains sound and on track to meet the fiscal rules over the economic cycle.

3.2.7 Taking each rule in turn:

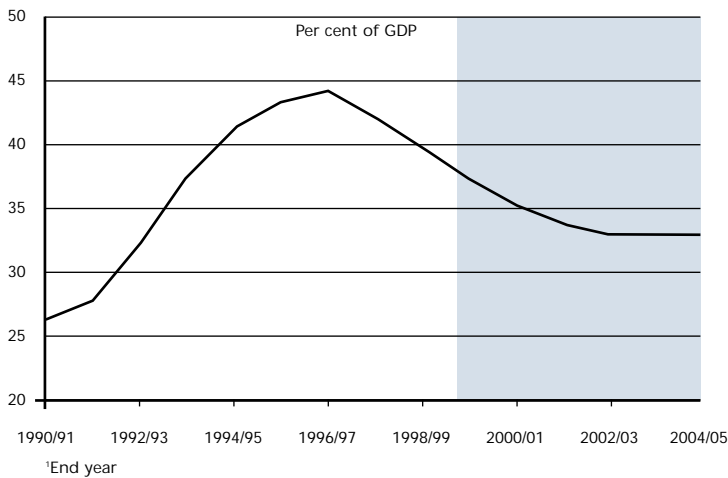
- **the golden rule (PSA target iv):** the current budget (excluding windfall tax and associated spending) is estimated to have been in surplus by £17.1 billion in 1999-2000, following a surplus of £7.5 billion in 1998-99 - current receipts therefore exceeding current spending in both years.

Chart 3E: Current budget



General government net borrowing - the Maastricht measure of the deficit - is estimated as a repayment of 1.3 per cent of GDP in 1999-2000, following a repayment of 0.6 per cent of GDP in 1998-99. These figures are well below the Maastricht reference level of a deficit of 3 per cent of GDP.

- **the sustainable investment rule (PSA target v):** the ratio of public sector net debt to GDP is estimated to have fallen from 39.7 per cent in March 1999 to 37.1 per cent in March 2000, consistent with meeting the sustainable investment rule.

Chart 3F: Public sector net debt¹

General government gross debt - the Maastricht measure of debt - is estimated to have fallen further in 1999-2000, and at around 44 per cent of GDP remains well below the 60 per cent Maastricht reference level.

- **Expenditure Limits (PSA target vi):** the Government has adhered to the Departmental Expenditure Limits for 1999-2000 fixed in the 1998 Comprehensive Spending Review (CSR).

3.2.8

In order to provide a comprehensive guide to fiscal policy under the new fiscal framework, the Treasury published a separate paper, 'Analysing UK Fiscal Policy', alongside the November 1999 Pre-Budget Report.

3.2.9

The Government has also continued to meet its public spending commitments. Having remained well within the inherited Control Totals for both 1997-98 and 1998-99, the Government has adhered to its 1999-2000 DEL, with spending currently estimated to be £1 billion below the DEL total of £179.9 billion set out in the November 1999 Pre-Budget Report.

3.2.10

At the same time, 1999-2000 has seen the extra resources for health and education allocated in the 1998 Comprehensive Spending Review (CSR) start to come on stream.

Plans for 2000-01 and 2001-02

3.2.11

The Government will ensure that the progress made to restore the health of the public finances over the past three years continues to be locked in over the medium term.

3.2.12

The March 2000 Budget ensures that the Government remains on track to meet its fiscal rules and locks in the fiscal tightening over the next two years to an even greater extent than projected in Budget 99, while releasing substantial new resources for key public services. The Budget projections, based as before on prudent and cautious assumptions audited by the National Audit Office, demonstrate that the Government is firmly on track to meet its fiscal rules and its key performance targets:

- **the golden rule (PSA target iv):** the current budget is projected to remain in surplus in both 2000-01 and 2001-02. Indeed, current receipts are projected to exceed current spending in each of the next five years, resulting in an average surplus of 1.3 per cent of GDP between 1999-2000 and 2004-05.

Public sector net borrowing is projected to show continued repayments in both 2000-01 and 2001-02, before moving into modest deficit in the following three years as public sector net investment more than doubles to 1.8 per cent of GDP by 2003-04.

- **the sustainable investment rule (PSA target v):** net debt is projected to continue falling steadily as a per cent of GDP, to 35.1 per cent in March 2001 and 33.6 per cent in March 2002, and reaching 32.6 per cent by March 2005.

3.2.13

The 1998 CSR set three-year spending plans for 1999-2000 to 2001-02 inclusive. Having adhered to the 1999-2000 DEL, the Government will ensure that, with the targeted additions to priority services agreed in the Budget, spending in 2000-01 will be contained within the DEL; plans for 2001-02 are being reviewed in the 2000 Spending Review. The 2000 Spending Review is currently in progress and is due to be completed in July (see 3.3 6).

3.2.14

Budget 2000 has:

- allocated an additional £3 billion of current spending in 2000-01 and an additional £1 billion of capital spending within DEL in 2000-01; and
- set firm overall limits for public spending for the period of the 2000 Spending Review, allowing:
 - current spending to increase by 21/2 per cent a year in real terms in the three years to 2003-04, in line with the Government's neutral view of the economy's trend rate of growth; and
 - a more than doubling in net investment, rising to 1.8 per cent of GDP in 2003-04. This makes a further significant contribution to tackling the legacy of underfunding of Britain's public infrastructure while remaining consistent with the sustainable investment rule.

Objective 3:

Improving the quality and cost effectiveness of public services

PSA targets

- (vii) ensure that all departments are set testing output and efficiency targets by the end of 1998 and work with them to ensure that they meet their targets by their deadlines;
- (viii) improve the productivity of the public services year by year;
- (ix) use the Departmental Investment Strategies to be produced by Spring 1999 and the Capital Modernisation Fund to double net public investment and improve the public capital stock by 2002;
- (x) gain acceptance for the standard framework for public private partnership contracts by the end of 1999;
- (xi) improve value for money in public procurement year on year;

Public spending and public sector productivity

3.3.1

The public sector will spend nearly £370 billion this coming year (2000-01), around 39 per cent of national income.

3.3.2

The Government uses this huge sum to buy a wide range of public services including education (£45 billion), health (£43 billion), defence (£21 billion) and law and order (around £20 billion).

3.3.3

Given the sums involved, it is crucial that the Government obtains value for money. Spending by the public sector has a large impact on the overall performance of the economy. Improving the effectiveness and efficiency of public spending, and the quality of service which it buys, are key Treasury aims.

Achievements and Plans

3.3.4

The Treasury has introduced several ground-breaking reforms to improve the planning and control of expenditure, and to increase incentives for public sector productivity. Paragraph 3.2.7 explains the new firm multi-year Expenditure Limits within which departments can prioritise resources and plan ahead. In addition:

- departments have published **Public Service Agreements**, with stretching, quantified targets for

improving service delivery and departmental efficiency (**PSA target viii**);

- **decisions on spending are now based on prudent and sound fiscal rules.** Capital and current expenditure are planned and managed separately to ensure these fiscal rules are met and to prevent capital investment for the long term being cut back to meet short term pressures on current spending. With the Treasury, departments have produced **Departmental Investment Strategies (PSA target ix)** to demonstrate that capital investment is being efficiently and effectively used.

3.3.5

1999-2000 has been the first year of operation of these new arrangements:

- **the three year plans set in the CSR** represent a major shift in resources towards the Government's key priorities. Over 50% of the planned increase in Departmental Expenditure Limits and local authority spending over the next three years is being targeted on education and the NHS, with additional spending of £19 billion in education underpinning the drive to raise standards, and additional investment of over £20 billion to modernise UK health services;
- capital is budgeted for separately, and **capital investment** is set to double over the three years to 2001-02 (see PSA target ix). In addition over £8 billion worth of PFI deals have been signed since the general election closing more than 250 contracts. Looking ahead, deals worth almost £12 billion are expected in the next three years, in such diverse areas as schools, hospitals, local authorities, defence and property management;
- on **Public Service Agreements** the Treasury is now engaged in a major monitoring exercise, collecting information regularly from departments on their performance against both policy and operations targets. This thorough monitoring and programme of discussions at Ministerial and official level is helping to ensure that departments are on track towards their targets; details of performance to date are published in departments' Annual Reports. The Treasury has also been learning the lessons of the first round of PSAs, consulting departments and others on how to refine the process during the 2000 Spending Review (see below).

The 2000 Spending Review

3.3.6

Work is under way now on the next periodic review of public spending following the CSR. This review, which the Government intends to complete by July 2000, will roll forward existing spending plans for 2001-02 and set new spending plans for 2002-03 and 2003-04.

3.3.7

The aim of the review will be to determine how best departments' programmes can contribute to the achievement of the Government's objectives, including in particular its aims of:

- opportunity for everyone to fulfil their potential through education and employment;
- a fair and inclusive society in which communities are healthy and secure; and
- higher productivity, sustainable economic growth and effective co-operation with our European and international partners.

3.3.8

The review will entail a rigorous scrutiny of departments' performance in delivering effective and responsive services, improving efficiency, and managing assets and other resources. It will also consider a range of issues which cross departmental boundaries. Stretching new PSA targets will be agreed alongside new spending plans.

3.3.9

This review will for the first time take account of the full resource costs of providing services including the cost of assets employed, as part of the move to resource budgeting and accounting. This is in line with the Treasury's own existing PSA target to move to a resource-based budgeting system in 2000.

The Capital Modernisation Fund and Invest to Save Budget (PSA target ix)

3.3.10

The CSR established a **Capital Modernisation Fund** to channel £2.5 billion to additional innovative projects that improve key services or public infrastructure. The Capital Modernisation Fund is allocated by the Treasury on a competitive basis, determined in part by Departmental Investment Strategies. Some examples of successful projects from Round One are:

- £470 million as part of the National IT Strategy to provide 1,000 IT learning centres across the country;
- £430 million invested in the NHS to modernise Accident and Emergency departments and give patients better access to primary care;
- £170 million to make communities safer, funding security measures which build on the Crime Reduction Programme and provide a substantial boost to the Government's fight against crime;
- £30 million to fund cross-departmental IT linkages between the criminal justice departments in the form of a central challenge fund;

- £18 million to provide resources for Department for Education and Employment (DFEE) to develop a sophisticated IT system to match job seekers to employers online;
- £1.1 million to pump-prime various e-commerce procurement initiatives across Government - in particular to develop a Government "Shopping Mall" to provide electronic tendering of low-value transactions to and from Government, which could save over £10 million a year; and
- £440,000 to fund a Driver & Vehicle Licensing Association (DVLA) project to fit Automatic Number Plate Reader technology to roadside cameras to detect unlicensed vehicles.

3.3.11

The Invest to Save Budget allocates funds to projects that improve the efficiency and effectiveness of public services through partnership between public sector bodies working together to deliver services. Following the first bidding round, 33 such projects were allocated a total of £120 million over three years from 1999-00. A second bidding round was held in 1999 and winning projects will receive funding from 2000-01.

Public Services Productivity Panel

3.3.12

To bring a new perspective and new expertise to the drive for better public services, the Government has brought together a small team of senior business people and public sector managers to advise on ways of improving productivity and efficiency.

3.3.13

The Public Services Productivity Panel, chaired by the Chief Secretary to the Treasury, has been working throughout 1999-2000 on a programme of studies the objective of which has been to produce proposals that will deliver real productivity improvements in the specific area of the study and have wider relevance to other parts of the public services. Each study has been led by an individual Panel member working with one or more government department or agency.

3.3.14

Three Panel studies have now been completed and reports issued. These set out recommendations and implementation plans for:

- reforming incentives for the front-line office staff working in the government's large office networks such as the Benefits Agency and the Inland Revenue;
- continuous improvement to customer service in the large transport agencies, such as the Driver and Vehicle Licensing Agency;
- reducing waiting times for outpatient appointments;

3.3.15

Nine further studies are nearing completion, with reports due out in April. The key lessons from the Panel's first round of studies will be drawn together into a joint report due out in May. More information about the Panel, and copies of its reports, are available from the Treasury website.

3.3.16

The Panel was established for a year in the first instance. The Government has renewed the Panel for a minimum of a further two years.

Public Procurement (PSA target xi)

3.3.17

Public procurement accounts in total to some 11 per cent of GDP. It is the Government's intention to secure increased value for money in commercial relations with its suppliers. Guidelines for departments were re-issued in November 1998. The Treasury continues to work with departments and other relevant UK bodies and organisations, and with other Member States increase efficiency in procurement and further open markets.

3.3.18

The Government commissioned Peter Gershon, Managing Director of GEC Marconi, to review "civil procurement in Central Government in the light of the Government's objectives on efficiency, modernisation and competitiveness in the short and medium-term". On 22 July 1999 the Government announced its intention to implement Peter Gershon's recommendations:

- to provide a centre of excellence for strategic procurement skills which will be available to departments and will set the broad strategic framework within which departments will operate;
- to establish a common strategic framework within which all departments will conduct their procurement activity. The framework will cover, a standard procurement process, common performance measures, key standards, common systems and key values;
- to ensure a common approach to procurement in order to secure leverage with key suppliers, maximum value for money from the aggregation of common requirements and to help share best practice.

3.3.19

To take these reforms forward, an Office of Government Commerce (OGC) will be set up from 1 April 2000 as an Office of the Treasury funded by its own Parliamentary Vote and responsible to the Chancellor of the Exchequer. The OGC will inherit responsibility for provision of the broad range of purchasing services previously offered by the Treasury

Procurement Group, The Buying Agency (TBA), Property Advisers to the Civil Estate (PACE) and the Central Computer and Telecommunications Agency (CCTA).

3.3.20

Departments are continuing to implement the recommendations of the 1998 joint Treasury/Cabinet Office review of civil government procurement efficiency and effectiveness:

- The Government procurement service was launched in April 1999 and provides a structured career path for Government purchasers linked to existing professional training routes and qualifications.
- The Procurement Excellence Model was launched in September 1999, based on the European Foundation for Quality Management Excellence Model and providing a framework for departments to measure procurement performance and added value, and to benchmark.
- An electronic shopping mall, for the purchase of low value, high volume goods and services, will be available from April 2000 and will be rolled out to departments during 2001.
- A provision for departments to send and receive tender documentation electronically will be available from June 2000. Targets to be set out for departments to issue 50 per cent of invitations to tender and other supplementary information, and to receive tenders, electronically by March 2001, and 90 per cent by March 2002.
- A Government Supplier Information Database (GSID) will be available during 2000 to reduce the burden on suppliers having to send repeat information to Government.

3.3.21

Departments are also continuing to make increased use of the Government Procurement Card, launched in October 1997. Cumulative spend through the card to date is £20.3 million involving 172,000 transactions. The card offers a cost-effective means of purchasing low value goods and services (see PSA target xi).

3.3.22

With an annual spend on construction of £ 7.5 billion, central Government is a very important client of the construction industry. "Achieving Excellence", a three year strategy for improving Government's construction client performance, was launched in March 1999. The strategy sets a series of milestone targets and improvement routes which will be implemented by departments, Agencies and Non Departmental Public Bodies over the three year period to March 2002. Departments are on track to meet or better key targets set for March 2000.

Public Private Partnerships

3.3.23

Public private partnerships (PPPs) are a key element in the Government's strategy for delivering modern, high quality public services and promoting the UK's competitiveness. They cover a range of business structures and partnership arrangements, from the private finance initiative to joint ventures and concessions to outsourcing, and to the sale of equity stakes in state-owned businesses. By drawing on the best of the private and public sectors, PPPs are bringing new investment and better management into Britain's public services, and are helping state-owned businesses achieve their full potential.

3.3.24

When the Government came into office in May 1997, it began to enhance PPPs by overhauling the PFI. It created the Treasury Taskforce as a source of expertise in the public sector, introduced standardised contracts and focussed on a smaller number of projects. The flow of deals has risen rapidly as a result, and in less than three years, contracts with a combined value of over £8 billion have been signed in areas as diverse as hospitals, schools, military helicopter training and water treatment services, compared with £4 billion¹ over the whole of the previous Parliament. PFI will generate almost £12 billion worth of new investment over the period 1999-00 to 2001-02. The Government announced plans in July 1999 to build on this success by establishing Partnerships UK - a private company with a public interest mission, which will enhance the public sector's ability to use public private partnerships to achieve its objectives.

3.3.25

The Government is also using public private partnerships in many state-owned industries to help these businesses to compete and provide improved services to their customers, while retaining responsibility for public interest issues (in particular, safety) in the public sector. In particular:

- the Government is taking forward a PPP for London Underground in which private sector partners will be granted long term concessions to upgrade and modernise the tube infrastructure, including some £8 billion of new investment, backed by a tough performance regime to ensure that this investment leads to better services;
- the Government intends to introduce a private sector strategic partner into National Air Traffic Services (NATS) to fund and manage more effectively the company's large, modernising investment projects, while separate, public regulation will ensure NATS maintains its high safety standards and offers value for money for airlines and their passengers;
- the Government is looking to sell a minority stake in BNFL, subject to further work by the Government and its advisers, and to the company's overall progress towards achieving a range of performance targets set by the

Government. This will strengthen commercial disciplines as BNFL seeks to exploit opportunities in the competitive nuclear and environmental clean up markets worldwide, while maintaining the regulation that is essential to maintaining high safety and environmental standards; and

- the Government has announced its intention to sell a majority stake in the Commonwealth Development Corporation (CDC) to enhance the business' ability to raise funds, which will continue to be invested in the poorest countries in the world.

3.3.26

In addition, the Government is expanding the use of private sector skills and investment to an ever widening range of public sector activities, drawing on business skills to develop and implement policy, and using the expertise of private sector partners to make better use of public sector assets.

3.3.27

Finally, the Government has welcomed the advice contained in the PAC's Reports on getting better value for money from the Private Finance Initiative and on improving the delivery of Government IT projects (the latter following the Cabinet Office review announced in October 1999). The Treasury continues to ensure that its advice to departments, both through its discussions with those departments engaged in PPPs and more specifically through the publication of Treasury guidance notes, reflects best practice and the requirement to pursue best value for money.

3.3.28

The Treasury will also continue to make progress with the sale of its remaining residual debt and equity holdings.

Objective 4:

Increasing the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, competition, innovation, enterprise, better regulation and increased employability

PSA targets:

- (xii) Put in place policies to raise the rate of growth of potential output above the current estimate of 2¼%.
- (xiii) Put in place policies to narrow the productivity gap relative to other industrialised countries over the cycle. (Joint DTI target).
- (xiv) Secure an increase in the number of successful high growth business start ups (joint DTI target).

¹Excludes the Channel Tunnel Rail Link project (which had to be re-negotiated in 1998)

- (xv) Put in place policies to reduce structural unemployment over the cycle.

The Policy Framework

3.4.1.

Britain faces a clear productivity challenge, with performance lagging behind that of other major economies. This reflects long-standing problems and weaknesses in many areas. For example:

- despite the UK being open to international trade, it has suffered from a lack of strong domestically generated **competition**;
- a weak **enterprise** culture - the number of people involved in starting businesses in the UK is about half that of the US, although we compared well with most of Europe;
- the UK has a weak record on **innovation**, with the lowest rate of business research and development (R&D) in the G5;
- insufficient **skills** - we compare poorly with Germany on intermediate skills and have fewer highly-skilled people than the US; and
- before 1999 the UK **invested** less of its national income than the G7 average every year since at least 1965, leaving us with a lower capital stock than our major competitors.

3.4.2

The Government's long-term ambition for the next decade is that Britain will have a faster rise in productivity than its main competitors as it closes the productivity gap. The best environment for productivity and developing high-growth start ups, where enterprise and fairness are combined as one:

- **which is strongly competitive so that businesses have to be innovative and entrepreneurial to stay ahead and markets are opened up for new entrants;**
- **which has a culture of enterprise with proper incentives for risk taking which leads to innovation as new ideas and inventions are exploited;**
- **where all individuals have the skills to make the best use of new technologies;**
- **where the resulting incentives promote more, and more productive, investment; and**
- **that is underpinned by improved public sector productivity delivered through better quality services and increased investment in infrastructure.**

3.4.3

Alongside raising growth and productivity the Government's aim is employment opportunity for all - the modern definition of full employment - based on clear rights and responsibilities.

3.4.4

The Government's strategy for ensuring that work is open to all comprises three principal elements:

- **welfare to work policies** as the key to delivering employment opportunities: reducing inactivity, especially concentrations in groups or areas; re-attaching unemployed and inactive people to the labour market and making them more effective at competing for jobs; and enabling a rapid return to work for the unemployed, avoiding detachment from the workforce;
- **making work pay**: by ensuring that tax and benefit policy provides the right incentives at all levels of the labour market; and
- **easing the return to work** and allowing people to work their way up once in work.

Achievements in 1999-2000

3.4.5

The UK's productivity gap with countries such as the US, France and Germany is substantial. In 1998 for output per worker, one measure of labour productivity the UK had a gap of 36% with the US, around 20% with France and nearly 15 per cent with Germany.

3.4.6

Latest figures show an increase in the number of business start-ups, improvements in survival rates and an increase in the number of high growth companies. The number of high growth companies is expected to continue to rise during the next few years.

3.4.7

The Government believes that a neutral estimate of the UK's annual trend growth rate over the coming period is 2½ per cent. The UK economy has shown clear signs of improved stability and a decline in the sustainable rate of unemployment (see 3.1.7 and 3.1.16). This evidence suggests strongly that the contribution of growth in the employment rate to overall trend growth will be greater than during the 1990s.

3.4.8

The productivity target is to narrow the productivity gap over a full economic cycle. In order to meet this target the Government has embarked on a wide ranging programme of reforms. Some measures, such as changes to Corporation Tax, or the 1998 Competition Act have already been introduced. These reforms will take time to have their full impact. Others, such as the R&D tax credit, will be introduced in the Finance

Bill 2000. So it is too early to say yet whether the target will be met, and too early to conclude that the economy's underlying rate of productivity will improve. Therefore the underlying rate of productivity growth for the calculation of a 2½ per cent trend growth rate is assumed to remain as in previous cycles. In this sense the Governments's neutral estimate of trend growth of 2½ per cent is subject to upside risk, in that no gains from the productivity reforms set out below have been assumed.

3.4.9

For a full analysis of the increase in trend growth see the Treasury publication "Trend Growth - Prospects and Implications for Policy", released at the time of the Pre-Budget Report (PBR).

3.4.10

Among the main measures that have been introduced to improve the UK's productivity performance are:

- **Competition** - a much stronger Competition Act 1998, which came into force on 1 March 2000 will greatly enhance the powers of the competition authorities. This has been backed up with extra resources for the Office of Fair Trading;
- **Enterprise and Innovation** - £1.4 billion extra has been made available for the science base. This complements University Challenge and Science Enterprise Challenge to encourage enterprise and innovation in universities. There have also been reforms to the planning system to promote the growth of clusters of innovative firms. A number of enterprise tax measures were announced in the 2000 Finance Bill. These were, the R&D Tax Credit which allows SMEs to write off 150 per cent of the costs of R&D, a tax relief to encourage Corporate Venturing, Enterprise Management Incentives which allow small higher risk companies to offer tax free share options worth £100,000 at grant to allow these firms to expand their management teams, and the all-Employee Share Ownership Scheme expands share ownership for all;
- **Skills** - £19 billion of additional funds has been allocated to schools, allied with an increased focus on enterprise skills in schools, numeracy and literacy targets. In addition over 1 million Individual Learning Accounts have been introduced to encourage Life Long Learning.
- **Encouraging investment** - The corporate tax structure has been reformed to remove the distortion in favour of dividends. Corporation tax rates for large and small firms have been reduced and a new 10 per cent starting rate has been introduced. In addition, after decades of neglect, public sector investment is increasing to complement private sector investment, and the capital allowances introduced in 1997 were maintained for a further year; and
- **Public sector productivity** - the Comprehensive Spending Review set out rigorous targets for government

departments, and the fiscal framework was reformed to encourage public sector investment after decades of neglect.

Enterprise and social exclusion

3.4.11

HM Treasury led two of the 18 Policy Action Teams set up in response to the Social Exclusion Unit's report on neighbourhood renewal. One of these teams, PAT3, looked at how to promote more successful enterprise in deprived areas. PAT3 published its report in November.

3.4.12

The Government will soon be formally responding to the recommendations of PAT3, and the recommendations of the other Policy Action Teams, when the Social Exclusion Unit puts together its strategy for neighbourhood renewal. However partly in response to the recommendations of PAT3, the Chancellor in the 1999 Pre-Budget Report announced a £30 million package of measures - **the Phoenix Fund** - to promote more successful enterprise amongst disadvantaged communities. The Phoenix Fund will do this through:

- a new development fund to promote innovative ways of supporting enterprise, such as business incubator units;
- a new challenge fund to help resource Community Finance Initiatives (CFIs) - finance intermediaries who lend to SMEs who cannot access mainstream sources of finance;
- loan guarantees to encourage commercial lending to CFIs; and
- a national network of volunteer business mentors.

Employment

3.4.13

Through the New Deal, the Government is ensuring that those who are out of work are kept in contact with the labour market. The New Deal provides help and support for people moving into work to ensure that they are well equipped to compete effectively in the modern labour market.

3.4.14

Launched nationally in April 1998, the **New Deal for 18 24 year olds** helps young unemployed people to secure jobs as the most effective way of enhancing their earnings, increasing their skills and securing their future economic independence. It is comprised of:

- up to four months of gateway provision - job search, careers advice and guidance;

- for those who have then not found employment, mandatory full time activity through one of four options (subsidised employment, full-time education and training, work on the environmental task force or with the voluntary sector)
- follow-through to ensure these young people are helped to build on their experience and move into lasting employment.

3.4.15

Twelve Intensive Gateway pilots were launched in August 1999, aimed at providing a more intensive initial gateway period for young people who might gain from greater pace and purpose in their job-seeking activities. These include more intensive help with job search and courses to help with "soft" skills, such as punctuality, team working and communication skills.

3.4.16

In parallel to this, since July 1999 the fourth month of the gateway has been made more intensive so that all young people in the New Deal at this stage are clear that there is no option of continuing on benefits and have the support they need to move on to one of the four options outlined above that is right for them.

3.4.17

By the end of January 2000, 191,600 young people had found jobs through the New Deal.

3.4.18

The Government's **New Deal Innovation Fund** is also supporting pilots testing out locally-developed proposals to improve the delivery of the New Deal in a number of key policy areas: helping disadvantaged young people, increasing geographical mobility, improving retention in employment, and strengthening pre-employment collaboration with employers. Further innovative proposals, paid for from existing funding, are also being taken forward.

3.4.19

Since June 1998, those aged 25 and over and unemployed for two years or more have been eligible for the New Deal 25 plus, which includes access to a Personal Adviser and, alongside a range of options for the long-term unemployed, a £75 a week wage subsidy and opportunities to undertake full-time education and training.

3.4.20

The New Deal 25 plus has also been extended through a series of innovative pilots based on the intensive approach pioneered for 18-24 year olds. There are 28 pilots running in Great Britain, launched at the end of November 1998.

3.4.21

By January 2000, almost 36,000 long-term unemployed people had moved into work via the New Deal 25 plus.

3.4.22

Since October 1999, the **New Deal 50 plus** has been available in nine pathfinder areas. This provides help with job search, an employment credit of £60 a week for full-time and self-employment and £40 for part-time employment for one year and training support, available on a voluntary basis to people aged over 50 to help them return to work, where they or their partner have been on benefits for more than six months.

3.4.23

There are also national New Deal programmes for lone parents and the partners of unemployed people, and a pilot programme for disabled people.

3.4.24

The Government's new **ONE** service combines a one-stop shop for benefits and employment advice, a personal adviser service to help people back into work, and work-focused interviews for all new benefit claimants: one place for work and benefits. It will forge an entirely new culture which puts work first, and provide a modern, integrated and flexible service for all. ONE is currently running in 12 pilot areas, including 4 using call centre technology and 4 led by private and voluntary sectors.

3.4.25

Overall, long-term unemployment has fallen by over a half since the election, while youth unemployment is down by 70%.

Plans for 2000-01 and 2001-02

3.4.26

On **competition** the key challenge is the successful implementation of the new competition framework which came into force on 1 March 2000. Following the review by Don Cruickshank, the Chancellor and the Secretary of State for Trade and Industry have asked the Competition Commission to investigate the market for bank lending to small and medium sized firms, and the Government will legislate to open up the money transmission mechanism to increase competition. The OFT will also look at whether certain professional rules should continue to be excluded from competition rules. And the Utilities Bill will be implemented to confer on the energy regulators a duty to advance consumer interests through the promotion of competition.

3.4.27

For **enterprise and innovation** the Government will shorten the business assets taper for **capital gains tax** so that business assets held for 4 years will only face 10 per cent tax. The definition of business assets will be widened to increase the generosity of this measure further. The 40 per cent first-year capital allowances for SMEs will also be made permanent. In addition 2000-01 will see the introduction of the R&D tax credit, the Corporate Venturing Tax Credit, Enterprise Management Incentives and the new All-Employee Share Ownership Scheme. The Government will devote an addition

£100m to aim to create £1bn overall in venture capital funds, building on the regional venture capital funds and the high-tech venture capital fund already being established to fund new innovative companies. This will complement £50m to enable RDAs to co-finance business incubators and small scale infrastructure to develop clusters and the growth stars of the future. There will be continued reforms to the planning system to make it more attuned to the needs of business.

3.4.28

And to help small firms make best use of the IT revolution, from April the Government will introduce 100 per cent first year capital allowances for small businesses investing in ICT where the UK has shortages. Plus, a £60 million package to help SMEs understand what getting on-line means for their business; help to get more of them on-line and then help to get the right services once they are on-line. The Government will also introduce further help to minimise the cost of complying with payroll obligations, for example with an extension of quarterly payments for PAYE for firms previously paying monthly, which will save employers up to £150 a year.

3.4.29

To reflect the Government's aim for enterprise and fairness, these coming years will see the implementation of the £30m Phoenix Fund package for enterprise in deprived areas. This is augmented with the New Entrepreneur Scholarships which will be offered to budding entrepreneurs in deprived areas from September 2001. Pilots of these scholarships will be run in Cornwall, Manchester and London later this year.

3.4.30

The Government is also committed to making sure women can make their full contribution to the labour market and productivity. Key steps will include implementing the £470m National Childcare Strategy to increase access to good quality affordable childcare to make it easier for women to get back to work.

3.4.31

For **skills** the Government has set a long term ambition for the next decade that for the first time a majority of school and college leavers will go on to higher education. To support life-long learning, everyone over 19 will be able to apply for an Individual Learning Accounts. These accounts will offer individuals £150 in return for a £25 investment of their own money, as well as discounts on key courses. And the University for Industry concept will be launched under the name learndirect in Autumn 2000. In addition the Government will reform the system of work permits to allow easier access to the UK to individuals with key skills.

3.4.32

For **public sector productivity** there will be the Spending Review 2000 which will aim to target government spending on its key priorities, whilst increasing the efficiency and effectiveness of spending overall. One of the key themes of the

spending review will be productivity. Partnerships UK and the Office of Government Commerce will begin their respective work on Public Private Partnerships and improving Government procurement.

3.4.33

Turning to the **employment** side of objective 4, during 2000 the Government will:

- create a jobs and learning bank, which will put jobs, jobseekers' CVs and information about careers and learning opportunities on the internet;
- expand nationwide the network of touch-screen jobpoints in Job Centres and other locations so that jobseekers can search not only all job vacancies notified to the Employment Service but also those carried by private agencies and newspapers;
- develop links with the BBC and other potential partners to harness the potential of interactive television to link employers and jobseekers;
- set up a national network of job-broking call-centres. These call-centres will provide a single national telephone number for employers to register vacancies and jobseekers to call for information about the jobs on offer.

3.4.34

There will be a nationwide expansion of the Intensive Gateway approach in the New Deal for 18-24 year olds from June 2000, taking into account the lessons learnt from the evaluation of the pilots. This will include a full time two week course addressing job search activity and soft skills, as well as more intensive personal adviser guidance.

3.4.35

The Government intends to extend the Windfall Tax financed Innovation Fund into future financial years in order to back good ideas generated at local level for improving the effectiveness of the New Deal. In particular, it is interested in exploring how best to support intermediary organisations from the private and voluntary sectors, which can add value by linking long-term unemployed people to employers with vacancies on offer. To that end, it has decided to establish an Intermediaries Fund covering eleven inner-city areas. There is currently £5 million ring fenced for this.

3.4.36

The Government intends to intensify and extend the New Deal 25 plus on a national basis from April 2001, building on the lessons from the pilots and on the principles of the New Deal for young people, heralding a stronger emphasis on rights and responsibilities. The New Deal 25 plus will provide access to tailored support for people aged over 25 who have been unemployed for 18 months or more. It will comprise:

- structured gateway provision;

- followed by a period of full-time activity including flexible access to subsidised employment, support for self-employment, work-focused training, or programmes to improve key work skills; and
- follow-through provision to ensure clients build on their experience.

3.4.37

In preparation for this, from April 2000, participants in the New Deal for 25 plus will benefit from enhanced gateway provision with more intensive contact with their New Deal personal adviser and greater access to support services, as well as the improved job search facilities being put in place across the Employment Service.

3.4.38

The New Deal 50 plus will be rolled out nationally in April 2000.

3.4.39

There will also be a nationwide extension of the New Deal for Disabled People programme, alongside new retention and rehabilitation pilots, and a package of enhancements for the New Deal for Lone Parents. From April 2001, and in pathfinder areas from autumn 2000, lone parents with children over the age of five will be required to meet with a specialist personal adviser to guide them through the choices available to them.

3.4.40

From April 2000, all new claimants in ONE pilot areas will be required to take part in an interview to talk about their prospects of finding work and about the help that is available both to move into work and to ensure that work pays.

3.4.41

To deliver support for people of working age, during 2001 a brand new, modern agency will be established with a clear focus on work. The new agency will draw together the Employment Service and the parts of the Benefits Agency which support people of working age. It will deliver a single, integrated service to benefit claimants of working age and employers. The agency will continue to develop the partnership approach to working with the private and voluntary sectors which the Government has adopted in implementing its welfare to work policies.

3.4.42

In April 2000 **Employment Zones** will be introduced in 15 areas of Great Britain that suffer from particularly high levels of unemployment. Employment Zones are a new and innovative approach that aim to help around 50 000 long-term unemployed people aged over 25 back into work by offering programmes tailored specifically to peoples needs, with jobseekers and their personal advisors being able to set up Personal Job Accounts to use, more flexibly, funds that are available for support.

3.4.43

Action Teams will be set up in 20 of Britain's communities with the highest unemployment and lowest employment, along with additional support in the 15 Employment Zone areas. They will work with long-term unemployed people in the most deprived areas to identify suitable vacancies in neighbouring areas and to bring the two together, operating initially for one year from autumn 2000.

3.4.44

The Government will introduce from spring 2001, a **Job Grant** of £100 for people who move from welfare into work. This builds on the Income Support run-on for lone parents which lone parents will continue to receive. All others who move into work of more than 16 hours a week, expected to last 5 weeks or more, and who have been claiming Jobseekers' Allowance, Income Support, Severe Disablement Allowance or Incapacity Benefit for at least 52 weeks will be eligible. The Job Grant will replace the discretionary and narrowly-targeted Jobfinder's Grant and Jobmatch, providing a single transitional payment, available much more widely, and without the complex eligibility criteria of previous schemes.

Objective 5:

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

PSA targets:

- (xvii) maintain a minimum income guarantee for pensioners and severely disabled people; (Joint DSS target (iii))
- (xviii) reduce the number of households facing marginal deduction rates over 70% by 2001-02;
- (ix) provide an income guarantee of at least £190 a week for working families by October 1999;
- (x) continue to develop the tax system so that it underpins the strategy on sustainable development and delivers environmental objectives. (shared with Inland Revenue target (vi) and Customs and Excise target (vii))

3.5.1

The Government is committed to building a fairer and more inclusive society in which everyone can contribute to and benefit from rising economic prosperity. Reform of the tax and benefit system lies at the heart of meeting this commitment.

3.5.2

The Government is therefore pursuing a comprehensive strategy to:

- **increase employment opportunity** for all - through welfare to work policies, making work pay, introducing

measures to ease the return to work and making it easier for people to work their way up once in work;

- **deliver fairness for families and communities** - by providing high quality public services, targeting extra resources on those who need them most, promoting savings and pensions, and ensuring fairness in the tax system; and
- **protect the environment** - making sure that economic development takes place in a way which protects and, where possible, enhances the environment now and for future generations.

Achievements in 1999-2000

(i) Encouraging work

3.5.3

Employment in the UK has risen by 800,000 since spring 1997, to its highest ever level. Long-term unemployment has halved and youth unemployment has fallen by 70 per cent. The Government's progress in increasing employment opportunities is reported in full under objective 4.

3.5.4

In addition to the Welfare to Work programme, the Government is ensuring that tax and benefit policy provides the right incentives at all levels of the labour market, so that work pays more than benefits. Further measures introduced over the past year, but excluding Budget 2000 measures, include:

- **the National Minimum Wage** from April 1999, underpinning the Government's tax and benefit reforms and ensuring fair minimum standards of pay.
- a new **10p rate of income tax** from April 1999, the lowest starting rate since 1962-63. This has halved the marginal rate of tax for 1.9 million low-paid workers.
- reforms to both employer and employee **National Insurance Contributions** from April 1999.
- the **Working Families' Tax Credit** (WFTC), introduced in October 1999. This will help to make work pay for up to 1.4 million low and middle-income working families with children by an average £24 a week, half a million more than would have received Family Credit.
- within the WFTC, a generous **childcare tax credit** providing direct support for childcare costs for the first time and underpinning the increase in childcare places being delivered by the National Childcare Strategy.
- combined with the National Minimum Wage and other

pre-Budget 2000 tax and benefit reforms, the WFTC has guaranteed from October 1999 a **minimum income** of £200 a week for a family with someone in full-time work - thereby more than meeting the PSA target. It also guarantees that working families with an income of less than £235 a week will not pay any net income tax.

- the Government also introduced the **Disabled Person's Tax Credit** (DPTC) in October 1999. By October 2000 the DPTC will boost the incomes of 32,000 working people, nearly twice as many as were receiving the Disability Working Allowance, by on average £25 a week.
- **marginal deduction rates** (MDRs) measure the proportion of any increase in income lost through reduced benefit entitlement and increased taxation. In line with the PSA target, after all announced and pipeline Budget measures (including measures in Budget 2000), the number of families facing MDRs over 70 per cent will be reduced by almost 500,000 - significantly reducing the poverty trap for low-earning families.

(ii) Fairness for families and communities

3.5.5

The Government is also pursuing tax and benefit reforms to help deliver a fairer society and a better quality of life for all.

- in particular, the Government's goal is to reduce child poverty by half within a decade as it moves forward with its commitment to abolishing child poverty within the next 20 years.
- to support families and children, the level of **Child Benefit** was increased further in April 1999. Since coming to office, the Government has increased the level of Child Benefit for the first child by 25 per cent in real terms - its largest ever increase.
- to ensure fairness for pensioners, the Government has introduced a fivefold increase in the **winter fuel payment**. This winter, every household with someone over 60 - 8.5 million in total - received a payment of £100. The Government restored **free eye tests** for people over 60 from April 1999. And in line with its PSA target, the Government has **guaranteed a minimum income** for pensioners.

(iii) Promoting savings

3.5.6

Measures such as the WFTC, the National Minimum Wage and cuts in income tax rates increase the financial gains to work and financial independence. The Government wants to go further and encourage people to make provision for financial security throughout their lives.

3.5.7

The Government is seeking to create an environment which promotes saving opportunity for all, based on principles of fairness, flexibility and confidence and transparency:

- **Individual Savings Accounts (ISAs)** were launched in April 1999, allowing people to save free from tax while having instant access to their savings. In their first nine months, they attracted over £17 billion in new funds, nearly 40 per cent more than went into Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs) over the same period in 1998; and
- to encourage more people to save for the future, the Government **extended the 10p rate of income tax to savings** from April 1999, benefiting over 2.5 million people - 1.5 million of them pensioners.

(iv) Protecting the environment

3.5.8

The Government will consider using the tax system to deliver environmental benefits on a case by case basis, taking account of its wider economic and social objectives.

3.5.9

Measures introduced over the past year to help protect the environment include:

- a **reduced annual Vehicle Excise Duty rate** of £100 for cars with engines up to 1,100cc, providing a £55 reduction in the VED bill for drivers of 1.8 million smaller cars.
- an increase in the **differential between Ultra-Low Sulphur Diesel** and conventional diesel to encourage the take up of the clear fuel.
- a 29 per cent cut in the duty on environmentally-friendly **road fuel gases**.
- an increase in the standard rate of **landfill tax** from £7 to £10 a tonne from April 1999.

Plans for 2000-01 and 2001-02

3.5.10

The Government intends to introduce further reforms to the tax and benefit system over the next two years and beyond, in order to promote fairness and increase the incentives to work, save and invest.

(i) Encouraging work

- the **basic rate of income tax** will be cut to 22p from April 2000, the lowest level for 70 years;

- the rate of the **National Minimum Wage** for adult workers aged 22 or over will be increased from £3.60 an hour to £3.70 an hour from October 2000;
- the rate of employer **national insurance contributions** (NICs) will be reduced by 0.3 percentage points from April 2001, thereby ensuring that all revenue from the climate change levy is recycled back to business. In addition, the revenues from the new aggregates levy announced in Budget 2000 will be recycled through a further 0.1 percentage point reduction in employer NICs from April 2002.
- the Government will introduce an **employment tax credit**, broadly replicating the adult support in the Working Families' Tax Credit, for families with children from April 2003. The Government is considering how far to extend the employment tax credit to those without children.

(ii) Fairness for families and communities

Families and children

- **Child Benefit** will be increased by a further 3 per cent in real terms from April 2000, to £15 a week for the first child and £10 a week for subsequent children.
- the under-16 child credit in the **WFTC and the DPTC** will be increased by £4.35 a week from June 2000. These increases will be matched in income-related benefits from October 2000. An additional 50 pence a week will be added to the Children's Tax Credit when it is introduced in April 2001, making it worth up to £442 a year.
- from April 2001, working families with a full-time earner will be guaranteed a **minimum income of £214 a week**, while no family earning less than £255 a week will pay any income tax overall.
- the **Sure Start Maternity Grant** will be increased to £300 from the autumn, while **reforms to the WFTC and DPTC** will make the system more responsive to families' financial needs on the birth of a child.
- a new **Children's Fund** will be established alongside the 2000 Spending Review to invest in the work of the children's voluntary and community sector with children in poverty. Initial consultations with the children's voluntary and community sector have identified the need for investment at the most local level in order to make the most impact on children's lives. The Government will therefore be establishing a network of Children's Funds to fund local projects providing local solutions to the problem of child poverty.
- the Government will introduce an **integrated child credit** from 2003, bringing together the different strands

of support for children in the WFTC, DPTC, Income Support and the Children's Tax Credit, building on the foundation of universal Child Benefit. It will be paid to the main carer in families in and out of work.

- by the end of the current Parliament, the Government will be spending £7 billion extra each year on children.

People with disabilities

- the **disabled child credit in the DPTC** will be extended to families in receipt of the WFTC from October 2000.
- by April 2001, the DPTC will guarantee a **minimum income** of £246 a week for a family with children and someone in full-time work.
- from April 2001, **severely disabled people under 60 years of age on income-related benefits** will receive a guaranteed minimum income of at least £134 a week for single people and £176 a week for couples.

Pensioners

- from the forthcoming winter, the winter fuel payment will be increased by a further £50 to £150 a year. And from autumn 2000, all pensioners aged 75 and over will receive **concessionary TV licences**.
- the **pensioners' minimum income guarantee** will be uprated in line with earnings growth in April 2000 and subsequent years throughout the remainder of this Parliament, and from April 2001 the Government will double the lower capital limit within the minimum income guarantee to £6,000 and increase the upper limit from £8,000 to £12,000 to reward savers.

Fairness in taxation

- a radical package of measures will be introduced in April 2000 to encourage more individuals and more businesses to **give more to charities**.
- the Government sees a strong ongoing health case for real increases in **tobacco duties**, and announced in the November 1999 Pre-Budget Report that in future will take decisions on increases on a Budget by Budget basis. Budget 2000 increased tobacco duties by 5 per cent in real terms with immediate effect. This will release extra resources which will be included in the extra £2 billion for the NHS in 2000-01 announced in the Budget.

(iii) Promoting savings

- the £7,000 subscription limit for **Individual Savings Accounts** (ISAs) for 1999-2000 will be retained for

2000-01, rather than being reduced to £5,000 as previously planned.

(iv) Protecting the environment

- to encourage energy efficiency and reduce emissions of greenhouse gases, the **climate change levy** on the business use of energy will be introduced from April 2001. All revenue raised will be recycled back to business through a 0.3 percentage point cut in employer NICs and increased support for energy efficiency measures.
- the **reduced rate of VED** for existing small-engined cars will be extended to cars with engines up to 1,200cc from March 2001, giving a £55 cut to an additional 2.2 million cars. A **graduated VED system** for new cars will be introduced from March 2001, with cars placed in one of four bands according to their carbon dioxide emissions.
- a package of reforms to **lorry VED** will help to increase the efficiency of haulage operations and reduce congestion.
- from April 2002, a revenue neutral reform of **company car taxation** will encourage the take up of vehicles which have lower carbon emissions and use environmentally-friendly fuels, while removing any incentive to drive unnecessary miles.
- a 1p a litre cut in duty to incentivise the use of environmentally-friendly **Ultra-Low Sulphur Petrol** and a freeze on the duty rate for **road fuel gases**. Other **road fuel duties** were increased in line with inflation in Budget 2000.
- a new **aggregates levy** from April 2002 will tackle the environmental costs associated with quarrying and encourage the use of recycled materials. The revenues from the levy will be fully recycled to the business community through a 0.1 percentage point reduction in employers' NICs and a new Sustainability Fund.
- the **landfill tax** "escalator" will increase the standard rate of landfill tax to £15 a tonne by 2004.

Objective 6:

Maintaining an effective accounting and budgetary framework and promoting high standards of regularity, propriety and accountability

PSA targets:

- (xxi) introduce departmental resource accounts in 1999-00

- (xxii) get Parliamentary approval to place Estimates and Appropriation Accounts on the same basis
- (xxiii) move to a resource based budgeting system in 2000
- (xxiv) publish whole of government accounts, subject to results of current study, for 2001-02.

3.6.1

The pursuit of Objective 6 stems from the Treasury's obligation to Parliament to provide a framework for ensuring propriety and accountability in relation to the use of public money. To satisfy this obligation, the Treasury has a responsibility to maintain financial accounting, reporting and audit practices which ensure sound financial planning and control, and to develop those practices to secure improvements where necessary.

3.6.2

This objective also contributes towards the responsibility of the Treasury, and the rest of government, for ensuring that public funds are spent in a way that achieves the best value for money (see 3.3.3).

Achievements in 1999-2000

Maintaining an effective accounting and budgetary framework

- There has been further development of resource budgeting policy and the application of "live testing" of the arrangements for public expenditure planning and control.
- A continuing dialogue with departments has been maintained to ensure successful departmental implementation of resource accounting and budgeting.
- Departmental resource accounts for 1998-99 were prepared and subject to "dry run" audit by the National Audit Office, in line with the procedures laid down for "trigger point 3" on the resource accounting implementation timetable (see PSA target xxi). These dry run accounts will not be published, but will be made available to departmental select committees on a privileged basis.
- The Government Resources and Accounts Bill was introduced in November (PSA target xxii).
- Output and Performance Analyses were published in March 1999.
- The Resource Accounting Manual (RAM) has been updated as necessary, in particular to take account of the introduction of new Financial Reporting Standards.
- Progress has been made on updating the financial

reporting and accounting guidance for Non-Departmental Public Bodies (NDPBs) and Trading Funds, with a consultation exercise undertaken and an Exposure Draft of new guidance prepared.

- A Whole of Government Accounts (WGA) project team has been established and a detailed project plan completed covering delivery of both ESA-based WGA for 2001-02 and a phased approach to UK Generally Accepted Accounting Practice (GAAP)-based WGA. Enabling legislation for UK GAAP-based WGA was included in the Government Resources and Accounts Bill. Work is in progress to allow direct transfer of data from resource accounts into the national accounts.
- The Financial Reporting Advisory Board (FRAB) has continued to give independent advice on RAM and other financial reporting and accounting issues. The FRAB's 2nd report on its work was published for Parliament in July 1999. At the same time, the remit of the FRAB was extended to overseeing NDPBs and Trading Funds as well as central government departments with the membership enlarged to reflect this.
- We worked with departments to ensure that suitable RAB training arrangements were in place as part of the overall assurance process for RAB.
- RAB Memoranda to Parliamentary Committees were submitted in July 1999 and January 2000, reporting progress on the implementation of resource accounts and further proposals for the new resource based supply procedures.
- Detailed technical guidance on how central government and health sector entities should account for Private Finance Initiatives (PFI) transactions was published in June 1999. This followed extensive consultation with the accounting profession, including the Accounting Standards Board, and contractors.

Promoting high standards of regularity, propriety and accountability

- The Public Audit Forum was set up following a suggestion in "The Governance of Public Bodies: a Progress Report" (Cm 3557). The Treasury has participated fully in the Consultative Forum (which supports the Public Audit Forum) and its working groups.
- Work continued on the modernisation of *Government Accounting* with 10 revised chapters published in November 1999.
- The Treasury Officer of Accounts team dealt with some 3,000 casework queries concerning matters of regularity, propriety and financial control. It also helped Accounting Officers prepare for - and was represented at - some 50 hearings of the Public Accounts Committee.

- Reports were submitted to Parliament on contingent liabilities of government departments and deficits on services where fees and charges are set by Ministers and departments. A report was produced on cases of fraud (and theft of assets) within government departments for the financial year 1998-99. Anti-fraud activities in government bodies were supported through advice and seminars.
- New corporate governance requirements which require a statement of internal financial control have been successfully introduced across central government.
- A number of Dear Accounting Officer letters were published providing supplementary guidance for departments on a range of topics.
- The team contributed to cross-cutting working by providing accurate and timely advice on current and developing accountability and audit policy to HM Treasury teams and departments responsible for project implementation and delivery.
- Guidance to internal auditors was disseminated through seminars, workshops, conferences, and guidance material covering co-operation between internal and external auditors; audit committees; corporate governance; the internal audit role in Y2K; audit of Resource Accounting and Private Public Partnership projects and whistle-blowing. An assessment package for quality assuring internal audit and a report showing the results of benchmarking internal audit were produced.
- Advice was provided on some aspects of modernising government e.g. e-commerce, and a model for joint working between internal auditors and procurement staff.
- The Chief Secretary announced a review to recommend suitable audit and accountability arrangements in the 21st Century, covering the issues raised by the Committee of Public Accounts on the role and powers of the Comptroller and Auditor General together with related issues such as the audit of joined-up activities and attitudes to risk-taking in central government.

Plans for 2000-01 and 2001-02

Maintaining an effective accounting and budgetary framework

Resource Accounting and Budgeting

- Resource accounts for 1999-2000 will be audited and published.
- We will maintain and update as necessary the RAM, taking account of the FRAB's continuing advice.
- We will publish updated guidance on the financial

reporting and accounting guidance for Non Departmental Public Bodies and Trading Funds, again in the light of FRAB advice.

- We will take forward work on the development of WGA and, subject to the results of that work, to prepare to publish WGA, on a statistical basis, for 2001-02; and publish a Central Government Account, on a UK-GAAP basis for 2002-03.

Resource-based supply

- All departments will make available to their select committees "shadow" resource-based Estimates for 2000-01 (May 2000).
- The Treasury will continue to report to Parliament on progress on the introduction of Resource Accounting and Budgeting at defined "trigger points" with a view to securing Parliamentary approval for new resource based supply procedures.

Promoting high standards of regularity, propriety and accountability

- The Treasury will continue to participate positively and constructively in the work of the Consultative Forum and its working groups in support of the Public Audit Forum.
- The completely revised Government Accounting will be published in Summer 2000, and further revisions will be made to take account of resource accounting and budgeting. It is hoped to publish a new version of the Fees and Charges Guide.
- The Treasury Officer of Accounts team will help Accounting Officers prepare for - and will be represented at - some 50 hearings per annum of the Public Accounts Committee. The team will also deal with annually an anticipated 3,000 casework queries on matters of regularity, propriety and financial control.
- Reports will be submitted annually to Parliament on contingent liabilities of government departments and, if appropriate, deficits on services where fees and charges are set by Ministers and departments. A report will be produced on cases of fraud (and theft of assets) within government departments. We will continue to support anti-fraud activities in government through written advice and seminars.
- We will provide accurate and timely advice on accountability and audit issues to departments and cross-cutting teams involved in the modernising government/joint working initiative.

- We will continue to publish DAO letters as needed.
- Effective internal audit practice will be promoted and developed by disseminating best practice through various channels and media. The Treasury will continue to seek external advice to inform its activities. The the Government Internal Audit Manual will be revised.
- We will continue to develop appropriate guidance on corporate governance taking account of the recommendations of the Turnbull Report and best practice in the private sector.
- We will continue to issue guidance on the role of internal audit in Modernising Government issues.

Objective 7:

Securing an efficient market in financial services and banking with fair and effective supervision

PSA target:

- (xxv) complete the new regime for financial regulation under a single regulator by 2000.

The importance of the financial markets

3.7.1

A modern economy depends on effective and efficient relationships between its savers and borrowers and its financial services industry. Individuals and households alike need the financial markets to gain access to an increasing array of investments, loans and insurance products, whilst businesses and firms use the financial markets to raise capital so that they can invest, grow and create jobs. With the City of London and other major regional financial centres, the UK is not just the largest financial centre in Europe, but indeed the third largest in the world.

The Treasury's role

3.7.2

The Treasury aims to encourage and promote open, efficient, transparent, fair, world class financial markets and institutions that benefit all the users of financial services, including individuals, businesses and financial services firms themselves. It is responsible within the UK for policy, legislation and a regulatory system which will help deliver this goal. In the European Union, and globally, it negotiates and builds relationships with other international players. The UK's position as a leader in international financial markets adds considerable weight to our influence on the world stage.

Developing legislation for a changing financial landscape

3.7.3

The Financial Services and Markets (FSM) Bill establishes a single regulator, the Financial Services Authority (FSA), equipped with a single set of modern flexible regulatory powers. Under the Bill, the FSA will have four statutory objectives

- **market confidence;**
- **public awareness;**
- **the protection of consumers; and**
- **the reduction of financial crime.**

It will also be under a statutory duty to regulate in ways that ensure that the benefits of its activity should exceed the costs resulting and which respect the responsibility of **senior management** in authorised firms, support **competition** and **innovation**, recognise the **international character of markets** and are **efficient and economical**.

Achievements in 1999-2000

During 1999-2000, the Treasury:

- supported the work of the joint Lords/Commons pre-legislative scrutiny Committee;
- published a response to the Committee's reports;
- introduced the FSM Bill into the Commons and supported 35 Commons Committee sessions;
- secured 'roll over' of the Bill from the 1998-99 to 1999-2000 Parliamentary Session;
- introduced the Bill into the Lords; and
- published draft secondary legislation on financial promotion.

During the coming year, we hope to secure:

- Royal Assent by Spring 2000; and
- commencement of the key provisions of the new Act.

3.7.4

The Bill has enabled a review of the way regulation can be developed effectively to encompass changes in technology, in particular through **e-commerce**. By using secondary legislation, we can ensure that the scope of the Act will be kept up to date as e-commerce develops and new cross-border agreements are reached in the EU and globally. Proposals for

the regulation of investment in start up and growing companies by 'business angels' have been introduced reflecting our commitment to innovation and entrepreneurialism.

3.7.5

The Bill will also empower the FSA to regulate mortgage lenders to ensure that borrowers get clear helpful information to enable them to choose loans for home purchase with confidence.

Reducing financial exclusion

3.7.6

Having access to basic financial services, like a bank account, is something many take for granted. However, many other people face considerable difficulties in securing any access to these services. A Treasury led Policy Action Team (PAT 14) researched and published a report in November 1999 on these issues. A parallel report considered the scope for promoting Credit Unions. Ministers subsequently announced:

- support for establishing a central services organisation for Credit Unions, including financial support by the banks;
- deregulation to enable Credit Unions to offer a wider range of services, and regulation of Credit Unions by the FSA;
- that most major banks had agreed to provide basic credit-only accounts, which will assist the planned move to paying social security benefits electronically;
- greater transparency by the banks over their efforts to tackle financial exclusion.

During 2000-01 the Treasury will:

- with DSS, monitor progress in reducing financial exclusion;
- monitor whether there has been enough progress in transparency to deliver benefits which would make it unnecessary to legislate;
- encourage more 'insurance with rent' schemes to provide basic household insurance in poorer communities.

Encouraging more people to save

3.7.7

Saving is essential to ensure a more secure future both in the medium term and for retirement. However, saving has often not been easily accessible or even an option for a large part of the population. In response to this, action has been taken to help more people, including people on modest incomes, to save. In 1999-2000, the Treasury:

- introduced CAT standards for ISAs. CAT standard ISAs

offer reasonable **C**ost, easy **A**ccess and decent **T**erms, so that people new to, or inexperienced in saving can more readily choose savings for themselves;

- consulted on a new pension product, the pooled pension investment (ppi) which is designed to work especially well with the Government's plans for stakeholder pensions. ppis will be flexible and transparent and thus suitable for people with variable careers including people who have spells of self-employment or career breaks.

During 2000-01 the Treasury will:

- monitor take-up of CAT standard ISAs.
- introduce ppis from April 2001.

Encouraging competition in banking

3.7.8

In November 1998 the Chancellor announced an independent review of competition, innovation and efficiency in UK banking markets by Don Cruickshank, former Director of OFTEL.

3.7.9

The focus of the review was on an analysis of levels of competition in the main markets where the banks are players: credit, particularly to small and medium enterprises (SMEs), money transmission, and savings. Insurance and services to large corporates were excluded after consultation.

3.7.10

In July 1999 an interim report of the review suggested a number of changes to the Financial Services and Markets Bill. These were intended to ensure that the right institutional structures were in place to minimise any anti-competitive effect of the FSA's rules.

3.7.11

Don Cruickshank's final report was published on 20 March 2000. The Chancellor announced in his Budget that, following the review, the Government will bring forward a package of measures designed to reduce prices and improve services for consumers and promote innovation in banking.

Increasing access to capital markets

3.7.12

Action has been taken to encourage capital markets to serve businesses, both large and small, more effectively. In particular, we have considered the needs of firms in high growth and high technology sectors. In 1999-2000 the Treasury:

- introduced legislation transferring responsibility for the Central Gilts Office from the Bank of England to CRESTCo;

- announced the transfer of the listing authority from the London Stock Exchange to the FSA, in view of the potential anti-competitive effect of leaving this function with the LSE as it plans to demutualise ;
- recognised 3 further overseas exchanges, enabling London based firms to trade through them;
- welcomed NASDAQ Europe's announcement to set up operations in London;
- worked closely with the Inland Revenue on the consultation process and the detailed development of new arrangements for employee share ownership.

During 2000-01 the Treasury will:

- introduce legislation allowing full merger of the Central Gilts Office and CRESTCo;
- introduce legislation allowing electronic transfer of legal title to securities;
- complete the transfer of the listing authority function to the FSA by May 2000;
- work with Inland Revenue to introduce the new employee share ownership scheme.

Maintaining financial stability

3.7.13

One of the main Treasury responsibilities is to monitor threats to the stability of the financial system, deal with any such threats that may arise and take action to minimise the risk and severity of future crises, in the UK or globally. The Treasury chairs the monthly standing committee on financial stability, with the Bank of England and the FSA. The roles of the three organisations are set out in a published Memorandum of Understanding (MoU). In 1999-2000 the bulk of the committee's work involved:

- the potential impact of global developments;
- tackling the risk to financial markets of the millennium computer bug.

3.7.14

The Millennium date change period passed smoothly in the financial sector, with no material problems reported in any of the UK-based institutions or markets.

3.7.15

During the coming year the Treasury will continue to work with the Bank and FSA to maintain the stability of the system.

Working with Europe

3.7.16

Development of the single market in financial services in the European Union represents a major opportunity for the EU and UK economy. Following an initiative under the UK Presidency of the EU, the Cardiff European Council in June 1998 called for the European commission "to table a framework for action ... to impose the single market in financial services". In collaboration with the Commission and other Member States, and in consultation with the UK based industry and European Parliament, the Treasury in 1999-2000:

- worked for a successful outcome to discussions in the EU financial services Policy Group, comprising personal representatives of economics/finance Ministers;
- broadly endorsed the resulting action plan to speed up progress in developing the single market at ECOFIN in May 1999 and the Cologne European Council;
- worked for successful outcomes to more detailed discussion of 11 draft directives and other action, in Brussels working groups and the Commission's Banking, Insurance and Securities advisory Committees;
- helped secure conclusions to the negotiations in the Council on e-money, and motor insurance;
- provided Explanatory Memoranda on EC proposals and documents throughout the year and in November its single market policy received Parliamentary approval; and
- worked to ensure that the implementation of effective financial supervision is suitably prioritised by EU applicant countries.

During 2000-01 the Treasury will continue to work:

- through the high-level Financial Services Policy Group, and in other fora, for the removal of unnecessary barriers to the development of pan-EU capital markets;
- for development over time of an effective single market in retail financial services, on terms which allow financial services providers good opportunities to trade across EU borders while equally providing good consumer protection, including the UK's proposals for cross border redress;
- for successful outcomes in more detailed areas, including pensions, collective investment schemes, insurance intermediaries, insolvency of insurance companies, application of the new Basel agreement on prudential supervision of banks, supervision of financial conglomerates, money laundering and distance marketing of financial services.

- continue to ensure that the financial supervision in EU applicant countries is of a standard that will allow passporting of their financial institutions into the EU as soon as possible after membership is agreed.

Participating at a global level

3.7.17

As a major trading nation as well as home to one of the leading global financial centres the UK's economic interests are bound up with global developments, including the stability of the international financial system. In the Autumn of 1998 at the Commonwealth Finance Ministers' meeting and at the subsequent G7 and IMF/World bank meetings, the Chancellor called for a new informal body, akin to the UK standing committee, to oversee improvements.

In 1999-2000 the Treasury:

- helped establish the new global Financial Stability Forum (FSF);
- played a leading role in its initial work on hedge funds and other highly leveraged institutions (an FSA lead), capital flows (Bank) and offshore centres (Treasury);
- participated actively in the Financial Action Task Force (FATF) and played a leading role in securing agreement that anti-money laundering systems should apply to fiscal offences and in the work to identify and sanction non-cooperating jurisdictions;
- with the Home Office and Crown Dependencies (Channel Islands and Isle of Man) secured agreement to implementation of the great bulk of the recommendations of the Edwards review of regulation in the Crown Dependencies;
- with the FCO and Overseas Territories (mainly in the Caribbean) secured agreement to a similar review of regulation in the OTs;
- with the FCO and Government of Gibraltar worked to obtain the right of Gibraltar based banks to 'passport' their services into the EU;
- with the DTI and European Commission, and in consultation with the UK based industry through the LOTIS group, prepared for the World Trade Organisation round of trade liberalisation talks on financial services.

During 2000-01 the Treasury will:

- help further develop the role of the FSF as a mechanism for co-ordinating international efforts to improve financial stability;
- work within the FATF to produce a list of non-

cooperating jurisdictions in time for the Okinawa summit and press for action to be taken to get them to comply with the FATF principles;

- with others, continue to promote the City of London as an international financial centre;
- work within the G7, FATF, FSF and OECD for a co-ordinated approach to improve regulation in offshore centres;
- with the Home Office and Crown Dependencies monitor implementation of the Edwards report;
- with the FCO and Overseas Territories aim to secure a similarly successful review of regulation in the OTs;
- despite the failure at Seattle to agree a new round of comprehensive trade liberalisation talks, work for a successful launch of talks on financial services, which are part of the 'inbuilt agenda';
- argue within ASEM (the meeting of Asian and European Finance Ministers) for market liberalisation and wider access for financial products.

Objective 8:

Arranging for cost effective management of the government's debt and foreign currency reserves and the supply of notes and coins

PSA targets:

- (xxvi) minimise the cost of holding the Government's foreign currency reserves, while reducing risk;
- (xxvii) minimise the cost and risk of financing the Government's borrowing.

Introduction

3.8.1

The Treasury's responsibility for the management of the Government's debt, foreign currency reserves and the supply of notes and coins is delivered through agents: the Debt Management Office, National Savings, the Bank of England and the Royal Mint.

3.8.2

Payments for the supply of gilt registration and reserves management form part of the Treasury's programme expenditure and these are covered in Chapter 6 of this report.

3.8.3

Similarly, payments to the Royal Mint for UK circulating coinage are programme payments and are covered in Chapter

5. A separate Agency of the Treasury - the UK Debt Management Office - was established in April 1998 and its expenditure is covered in Chapter 4. National Savings is a separate government department with its own expenditure provisions and is covered in Chapter 10 of this volume.

Government Debt

3.8.4

The Treasury's objective, as set out in its PSA - target xxvii, is to minimise the cost and risk of financing the Government's borrowing. In 1999-2000 the Treasury sought to achieve this through meeting its financing requirement, broadly maturing debt and the Central Government Net Cash Requirement, through sales of gilts, National Savings products and short-term debt in such a way as to minimise the longer term cost to the Exchequer, taking into account risk, while ensuring consistency with the objectives of monetary policy. The Debt Management Report published each March sets out remits for the Debt Management Office and National Savings to deliver this objective.

3.8.5

Rates on National Savings borrowing were set so that they provided a cost effective source of government financing, compared with gilts, whilst offering reasonable returns to savers.

3.8.6

The mean annual cost of government debt is measured by debt interest as a proportion of the debt stock (in nominal terms). It is a broad measure of the effectiveness of both Government policies and debt management practice in bring down interest rates on the whole range of its debt. But other factors affect it too. Yields on new issues of gilts are influenced by world interest rates. Interest on Treasury bills and other short term debt is affected by the interest rate set by the Bank of England's Monetary Policy Committee.

3.8.7

In 1998-99, in line with Treasury PSA target xxvii, the mean annual cost of government debt fell to 7.5 per cent. The main factors contributing to the fall from 7.6 per cent in the previous two years were the fall in inflation (which affects the interest paid on index-linked stock) and the fall in inflation expectations (which affects the yield on new issues of conventional gilts) arising from the introduction of the Government's framework for fiscal stability. This more than offsets the additional interest cost from higher short term borrowing rates.

3.8.8

The transfer of the government's cash management operations from the Bank of England to the DMO is due to be completed at the beginning of April 2000. This will complete the separation of debt and cash management from monetary policy operations. The objective of the DMO's cash management will be to smooth the net daily cash flows that occur between the

private sector and central government, and cash management targets are being developed. DMO decisions will be taken without any inside knowledge of future decisions on interest rates, and without speculating on those decisions. Nor will the DMO receive advance warning of market sensitive policy statements from Treasury, ONS or any other government department other than forecasts of the future pattern of cashflows. This change brings about greater transparency and openness. Debt and cash management operations will be conducted with the sole aim of meeting the government's debt management objective.

Management of foreign currency reserves and borrowing

3.8.9

The Bank of England continues to manage the foreign currency reserves and associated foreign currency borrowing, subject to an annual remit set by the Treasury. The objective is to minimise the cost of holding the Government's foreign currency reserves, while reducing risk.

3.8.10

In line with the Chancellor's policy on reserves transparency, the Treasury and the Bank now produce more comprehensive monthly and quarterly reports on the UK's official reserve assets and liabilities, including publication of forward books. The annual accounts of the Exchange Equalisation Account (the Treasury account which holds the reserves) were also published for the first time this year, when the 1997-98 accounts came out on 26 January.

3.8.11

Performance is measured in terms of the net cost or profit from holding the official reserves, which is the return that the Treasury earns on the reserves less the cost of funding them. The PSA target (xxvi) for this measure for 1999-2000 is zero. However, the net return is measured on a "mark-to-market" basis ie. including changes in the capital value of assets and liabilities as well as interest receipts and borrowing costs, and this means that factors such as exchange rate fluctuations or changes in the gold price can create considerable "mark-to-market" profits or losses in any given year. The zero target reflects the expectation that if the reserves are being managed effectively then the cost averaged out over a number of years should be around break even.

3.8.12

There was an overall cost for 1998-99 of £395 million, compared to a cost of £1540 million in 1997-98. This reflected a continued decline in the price of gold and its heavy cost of carry: little interest is earned by lending gold out compared to the interest cost of financing the gold holdings. The loss on gold was partly offset by profits of £164 million on foreign currencies resulting from the depreciation of sterling over the year as a whole, and a small £9 million profit on the UK's reserve tranche position with the IMF.

3.8.13

In May 1999 the Government announced a restructuring of the United Kingdom's Foreign currency and gold reserves with the aim of achieving a better balanced portfolio by increasing the proportion held in foreign currency assets. This restructuring involves a programme of gold sales through an auction process. The proceeds from the sales are being invested in interest bearing foreign currency assets and retained in the Reserves. It is intended during the financial year 1999-2000 to sell 125 tonnes of gold and over the medium term to reduce the United Kingdom's gold holding from 715 tonnes to around 300 tonnes.

3.8.14

From early 2000, the monthly and quarterly reports will follow the new IMF templates for international reserves management reporting. Later in 2000, the UK plans to move to weekly reporting, again in line with IMF recommendations. This, together with an intended move to publish annual accounts from 2000-01 which are drawn up on an accruals basis in line with generally accepted accounting principles, will provide greater accounting information and transparency.

Objective 9:

Promoting international financial stability and the UK's economic interests and ideas through international co-operation as a way of increasing global prosperity including seeking to protect the most vulnerable groups

PSA targets:

- (xxviii) make the International Finance Institutions (IFIs) more effective, transparent and accountable;
- (xxix) improve the quality of surveillance of international economies;
- (xxx) maintain discipline on the European Union (EU) budget, tackle waste and fraud, and maintain the UK abatement;
- (xxxix) pave the way for successful and affordable enlargement of the EU;
- (xxxii) ensure that the UK is ready for the introduction of the euro from 1999 and make proper preparations so as to create a genuine option of joining the single currency should the Government, Parliament and the people so decide;
- (xxxiii) raise the number of heavily indebted poor countries (HIPC) receiving debt relief, as set out in the Mauritius Mandate (note: the aim is to get three quarters of eligible countries through the HIPC process by the end of 2000).

3.9.1

The prosperity of the UK depends to a large extent on a prosperous and stable world economy. This is evident from the scale of both UK investment abroad and overseas trade:

- measured as a percentage of GDP, the UK's stock of overseas direct investment is larger than that of any other major economy;
- the UK is the world's fifth largest exporter of goods and services, even though we have only 1 per cent of the world's population.

3.9.2

Objective 9 reflects the use of influence and persuasion to promote global prosperity. This takes the form of implementation of measures to encourage open trade and capital flows, the provision of effective methods for global crisis prevention and resolution, and the fight against financial crime, corruption and regulatory abuse. An important part of this effort involves the promotion of UK interests as a member of the European Union. To ensure a more equitable spread of global prosperity, the UK supports international efforts to promote economic development and to alleviate poverty, including through debt relief for the poorest countries.

Achievements in 1999-2000 against PSA targets

- (xxviii) make the International Finance Institutions (IFIs) more effective, transparent and accountable;

3.9.3

The UK has continued to argue strongly for steps to increase transparency, and improve the effectiveness of IFI operations and procedures. There is now more openness in day to day operations of the IFIs, with evaluation arrangements put in place and more staff papers published. Increased dissemination of information on the International Monetary Fund's (IMF) annual consultations with member countries includes the release of concluding statements by the IMF mission teams, public information notices and a pilot project for the voluntary release of Article IV staff reports.

3.9.4

The Government has worked to enhance global and financial arrangements to reflect the changing nature of world economy, by supporting steps to reinforce the role of the Interim Committee - through transforming it into the permanent International Monetary and Financial Committee.

3.9.5

The Government has worked with G7 partners to establish G20 - a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system (the IMF and World bank). Discussions in this group provide a useful complement and reinforce the role of the governing bodies of the Bretton Woods institutions.

3.9.6

The first Annual Report to Parliament on the operations of the IMF has been published, enhancing both the transparency and accountability of UK policy (including voting records) at the IMF. Future reports will be published each autumn.

- (xxix) improve the quality of surveillance of international economies;

3.9.7

Since the end of 1998 the IMF, in cooperation with the World Bank, has conducted a pilot exercise of Reports on Observance of Standards and Codes (ROSCs) which assess countries' compliance with a number of internationally agreed codes and standards. A joint Fund-Bank Financial Sector Assessment Programme is also underway and is designed to assess financial sector vulnerabilities in individual countries. The aim is to ensure systematic IMF surveillance procedures are in place to assess a broad range of countries' compliance with codes and standards.

3.9.8

83 per cent of countries are releasing public information notices summarising Executive Board discussion of their Article IV consultation. 46 countries have offered to publish their full Article IV report (essentially, as assessment of the country's economy).

3.9.9

47 countries have now subscribed to the Special Data Dissemination Standard.

3.9.10

External evaluation of IMF surveillance has been carried out and a report has been published (see IMF website).

- (xxx) maintain discipline on the European Union (EU) budget, tackle waste and fraud, and maintain the UK abatement;

3.9.11

In December 1999 the Budgetary Authority (the Council and the European Parliament, acting in accordance with the Inter Institutional Agreement which was agreed in April 1999) concluded work on a budget for 2000 which was consistent with the Financial Perspective agreed at the Berlin European Council in March 1999. The budget fully meets the European Communities' needs and obligations.

3.9.12

In May 1999 the Economic and Finance Council of Ministers (ECOFIN) agreed to establish a new Fraud Office inside the European Commission. The new director would be fully independent in the performance of his duties. The European Commission have now appointed Franz Herman Breuner who took up his office on 1 March 2000. It is anticipated that he will bring forward a detailed work programme for the new office shortly.

3.9.13

Following the revelations which led to the resignation of the Santer Commission in 1999, Neil Kinnock, Vice President of the New Commission, under Mr Romano Prodi, has brought forward ambitious plans for the overhaul of the Commission's financial practices. When successfully implemented, these reforms should help to reduce fraud and financial irregularity significantly and, more generally, improve the value for money obtained in the EC's spending operations.

- (xxxi) pave the way for successful and affordable enlargement of the EU;

3.9.14

The Government achieved decisions on EU policies and negotiation positions, which increase the economic gains from and limit the budgetary consequences of enlargement. At the Helsinki European Council in December 1999, it was agreed that all the remaining negotiating "chapters" dealing with the applicant States' accession to the EU should be opened during 2000. A number of new candidates were admitted to the process.

- (xxxii) ensure that the UK is ready for the introduction of the euro from 1999 and make proper preparations so as to create a genuine option of joining the single currency should the Government, Parliament and the people so decide;

3.9.15

The aim was to raise the level of preparations for the euro among small and medium sized enterprises, as measured by our regular survey, from 13 per cent to 15 per cent by mid 1999, and to 17 per cent by the end of the year. The level of preparations rose to 14 per cent by April 1999 and was broadly at target at the mid-year. The end-year position will be available from the next survey, being carried out in Spring 2000.

3.9.16

On preparations for the possibility of joining, the Treasury has followed up the publication of the first Outline National Changeover Plan in February 1999 with a renewed planning effort led by a new Project Management Group, including representatives from the CBI, Chambers of Commerce, British Bankers Association and British Retail Consortium. A second Outline National Changeover Plan was published in March 2000. It provides more detail on what might happen at each stage of a changeover and sets out the next phase of planning.

- (xxxiii) raise the number of heavily indebted poor countries (HIPC) receiving debt relief, as set out in the Mauritius Mandate (note: the aim is to get three quarters of eligible countries through the HIPC process by the end of 2000).

3.9.17

The UK was successful in obtaining international agreement to an enhanced HIPC initiative which will provide faster, wider and deeper debt relief to the poorest countries. We also managed to raise the number of countries eligible for debt relief.

Other key objectives and achievements relating to Europe for 1999-2000 were:

3.9.18

To ensure that the momentum established under the UK Presidency of the EU, on the Government's economic reform agenda is maintained through succeeding Presidencies and becomes an enduring element of the Community's approach;

- further progress was achieved on putting reform of product, capital and labour markets high on the EU agenda, through the peer review process agreed at the Cardiff European Council in 1998, which covers member states' programmes on structural reform, and includes examples of best practice;
- the UK has worked to strengthen the Broad Economic Policy Guidelines (BEGs) as the centrepiece of economic policy co-ordination in the EU, with more emphasis being placed on monitoring policy and structural reform;

3.9.19

To ensure that the Agenda 2000 negotiations reach a successful conclusion which maintains the UK abatement; respects the principles of stabilisation of spending and budget discipline; and which reforms the key spending policies in line with good economic principles;

3.9.20

To reach a successful conclusion to the negotiations on the future financial framework for the EU, and secure the implementation of the framework, building on the decisions reached at the European Council;

- The Agenda 2000 negotiations were concluded at the Berlin European Council in March 1999. The abatement (the UK's rebate on its contributions to the EU) was successfully maintained, with only windfall gains arising from changes to the EU's financing system surrendered in line with previous practice. Stabilisation and budget discipline were achieved with agreement to a Financial Perspective which permits growth of less than 1 per cent a year. Worthwhile reforms of spending policies were achieved in all areas, although the UK would have supported even deeper reform of the Common Agricultural Policy (CAP);
- the UK played a full part in setting out an economically sound and sustainable strategy for the EU in

reconstruction of Kosovo and for stabilisation and development in the Balkan region as a whole;

3.9.21

To continue to improve the process by which Government informs Parliament of the EU business and run the scrutiny process successfully;

- in the latter half of the year, the Treasury reorganised to devote more resources to ensuring full compliance with Parliamentary timetables for submitting Explanatory Memoranda and depositing EU documents.

3.9.22

To work towards enlargement of the EU which applies economic criteria strictly, which helps the applicant countries become full and effective members of the Union and which maximises benefits to the UK;

3.9.23

To play our part in a review of the governance of the EIB, with the aim of producing arrangements that will enable the Bank to operate efficiently in the context of EU enlargement and the new strategy agreed in 1998;

- the Treasury worked with Whitehall and EU partners to encourage the necessary reform in accession countries to prepare them to meet the economic criteria for accession. We also pressed for the EU to prepare itself for enlargement, including by reforming EU policies;
- the Treasury participated fully in the review of governance of the European Investment Bank (EIB), calling on the EIB to examine all options for reform and to present clear proposals to its Governors by the next annual meeting.

3.9.24

To continue and to promote, working with others in the EU, the sound prudent and efficient management of the EU's finances;

3.9.25

To promote UK proposals for reforming the investigation of fraud in Community institutions and ensure, working with others, that a reformed system is rapidly achieved;

3.9.26

To reach a good outcome on the 2000 EC Budget with other members of the Council and the European Parliament;

See PSA target (xxx) above.

- working with other member states and with the Commission and other institutions, the Treasury continued to promote and progress the reform of the Commission's financial system, especially to promote better evaluation of

the Commission's spending programmes and the proper use of these results in the budgetary process. We also argued for far reaching management reform within the Commission to improve accountability and efficiency. The Commission brought forward reform proposals at the Helsinki European Council and early in 2000. The work towards a new anti-fraud Office (PSA target (xxx)) is also relevant.

3.9.27

To continue to work with Whitehall departments and business intermediaries to ensure that businesses, in particular small and medium sized enterprises (SMEs). Are able to take advantage of the euro, and, working with those bodies, draw up robust preparations to enable UK entry to the single currency, if such a decision is endorsed by Parliament and the people.

- the Treasury has continued to distribute fact sheets, prepared a set of case studies showing how real firms are preparing for the euro, and continue to facilitate euro planning across all sectors, through actively promoting the regional euro fora network;
- the Treasury has followed up the publication of the outline national changeover plan with a consultative planning effort throughout the year, working with over 100 organisations from the public, private and voluntary sectors. The public sector is committed to showing a lead, with legislation to allow key departments to spend money and a comprehensive departmental planning effort covering every government department.

3.9.28

To promote an agenda at the EU, OECD and G7 of: creating a more level international playing field for UK business on fiscal issues, particularly within the EU single market; promoting fair tax competition; tackling discriminatory tax rules and practices; and fighting tax abuse and evasion.

- the UK made successful progress on the work of the EU Code of Conduct Group, including a Report to ECOFIN; and a joint UK paper with the Inland Revenue setting out the UK position on international bonds and the draft EU Savings Directive, as a basis for discussions in the Council and its working groups. We achieved favourable conclusions for UK at the Helsinki European Council.

Key objectives and achievements relating to debt, development and export credit in 1999-2000

3.9.29

To secure progress towards full implementation of the Chancellor's Mauritius Mandate targets for third world debt relief. The aim is to secure decision points for 22 countries by the end of 1999;

See paragraph 3.9.17 above, on PSA target (xxxiii)

3.9.30

To continue to develop export insurance policy in ways which enhance UK exports and UK competitiveness whilst safeguarding the taxpayer;

- the Treasury has continued to develop prudent export credit cover policy with Export Credit Guarantee Department (ECGD) and its financial performance has improved throughout the year. ECGD expects to regain its financial objective by the financial year-end. The Treasury has been closely involved in various reviews of ECGD which should help to develop an export credit policy which is more effective at maintaining UK competitiveness and meeting UK Government objectives.

Key objectives and achievements relating to the world economy in 1999-2000

3.9.31

To support the creation of effective measures within the International Financial Institutions to deal with the particular problems of post-conflict and post-catastrophe countries;

- the UK has worked with the IMF and the World Bank on ways to address the particular problems of post-conflict countries, including looking at the issue of lending into arrears;

3.9.32

To ensure that the work to reform the global financial system is carried forward as proposed by G7 Finance Ministers. In particular, progress should be made on new arrangements for international financial supervision; finalising and implementing the codes of good practice in fiscal and monetary and financial policy; ensuring that work on the general principles of good practice in social policy is taken forward; and on new arrangements for crisis prevention and crisis management, including ways of strengthening the involvement of the private sector;

3.9.33

To make the international financial institutions more effective, transparent and accountable;

- the Treasury worked to ensure implementation of the programme set in hand by the G7. In particular, we:
- continued to press for cooperation between national and international bodies to enhance international financial market supervision and surveillance. The Financial Stability Forum was established in April 1999, for this purpose;

- continued to press for greater transparency in economic surveillance, including through encouraging the IMF to assess how well countries are complying with key codes and standards of good policy practice, and for the publication of this surveillance. Full transparency reports have been produced for 8 countries to date, including the UK;
- continued to work with the Department for International Development (DfID) at the World Bank and the UN to promote and advance work on the development of principles and good practices in social policy;
- continued to work for more effective involvement of private sector creditors in the prevention and resolution of financial crises. We played a leading role in developing the G7 framework for the involvement of the private sector, which was agreed at the summit at Cologne;
- we worked to reach agreement to establish the IMF's new Contingent Credit Line to help countries pursuing sound policies who are threatened by contagion;

3.9.34

To contribute fully to the G7 process and to the work of the IMF and other IFIs and improve the quality of international surveillance of the world economy and financial markets;

- the Treasury continued to play a key role in global economic surveillance discussions, in bodies such as the G7, the IMF, the EU and the Organisation for Economic Cooperation and Development (OECD);

3.9.35

To ensure that UK economic and financial interests are fully pursued at EU Council meetings, in meetings of the G7 and G10 and through the IMF and other international financial institutions, and other international fora, including the OECD;

- the Treasury played a full role in the development and implementation of the UK Government's wider economic and foreign policies towards a range of other countries;
- the Treasury supported growing contacts with Ministers, officials and visitors from abroad.

3.9.36

To continue to pursue free trade and free flows of capital around the globe;

- the UK has been at the forefront of those pressing for a comprehensive Round of trade liberalisation to be launched at the World Trade Organisation (WTO) Ministerial in November 1999. The UK was successful in ensuring that this aim was contained within the EU's negotiating conclusions for the WTO Ministerial.

3.9.37

To continue to support the process of economic development in the transition countries, primarily through the programmes of the IMF, World Bank and European Bank for Reconstruction and Development (EBRD);

- the UK worked to ensure the continued effectiveness of multilateral and bilateral support for transition countries (ie those moving from centrally planned to market economies), notably Russia and Ukraine;

3.9.38

To continue work on the analysis and forecasting of the world economy, and of individual countries, including the operation of the new European single currency area;

- the Treasury produced regular reviews and analysis of the world economy, including the state of world financial markets, to support the UK's contribution to international policy fora. An important element of the work was continued analysis of the causes and implications of the economic and financial market turmoil of the past couple of years;
- we produced the world economy section of the Treasury's economic forecasts; and contributed to discussions on the implications of world events for UK policy more generally.

Plans for 2000-01

In 2000-2001, the Treasury will aim to:

Objectives relating to Europe

- build on achievements in putting economic reform high on the EU's agenda, including making a success of the Lisbon Summit in March 2000;
- ensure that the EIB completes its review of governance in preparation for enlargement; that it focuses on value added lending, particularly in its support for small and medium-sized enterprises; and that it establishes clear objectives for lending outside the EU under new Council mandates;
- continue to improve the process by which Government informs Parliament of EU business, and to run the scrutiny process successfully;
- continue to work to ensure that the UK obtains value for money from its net contributions to the EC and that the Financial Perspective agreed as part of Agenda 2000 negotiations in Berlin in 1999 is respected in future budget negotiations;
- work towards enlargement of the EU which applies the Copenhagen economic criteria (ie that they have a

functioning market economy and are able to cope with competitive pressures within the EU) fully, which helps the applicant countries become full and effective members of the Union and which maximises benefits to the UK;

- ensure that UK economic and financial interests are fully pursued at EU Council meetings, in meetings of the G7, G8, G10 and G20 and through the IMF and other international financial institutions, and other international fora, including the OECD;

Objective relating to debt

- work with the IFIs to achieve the targets set in the Cologne agreement on debt relief of seeing three quarters of eligible countries through the HIPC process by the end of 2000;

Objectives relating to the world economy

- continue to pursue the objectives of free trade and free flows of capital around the globe;
- continue to support the process of economic development in the transition countries, primarily through the programmes of the IMF, World Bank and EBRD;
- continue work on the analysis and forecasting of the world economy, and of individual countries, including the operation of the new European single currency area;
- contribute fully to the G7 process and to the work of the IMF and other IFIs and improve the quality of international surveillance of the world economy and financial markets;
- continue to work to ensure implementation of the reforms agreed to strengthen the international financial architecture;
- consider further ways of promoting good governance internationally;
- ensure that the UK is ready to deal with the growth of euro use in the participating member states, especially as the introduction of euro notes and coins approaches;
- continue to make preparations to ensure the UK has a genuine option of joining the single currency, through taking forward the economy-wide consultation and through active preparations in the public sector.

Reduction of Third World Debt: Summary

3.9.39

The first agreement on a strategy to reduce the debt burdens of the poorest countries or Highly Indebted Poor Countries (HIPC) Initiative was reached at the Annual Meetings of the

World Bank and IMF in 1996, but by 1997 not one country had been through the process. Concerned that debt relief was not sufficient and was not getting through fast enough to the countries that needed it, the UK Government called for, and got agreement to, a review of the HIPC Initiative. An improved HIPC Initiative was proposed by the G7 group of countries at the Cologne Summit in June 1999, and at the IMF-World Bank Annual Meetings this September, the enhanced framework was agreed. This will:

- provide faster, deeper and broader debt relief;
- make it possible for three quarters of eligible countries to reach their decision points by the end of 2000 and for the remaining countries to embark on the process as soon as possible thereafter;
- link debt relief directly to poverty reduction; and
- mean that, together with the forgiveness of Overseas Development Debt, the debt burden of HIPC countries should be reduced by some \$100 billion.

3.9.40

More importantly though, this debt relief will go not to finance military weapons or bureaucracy, but to the social priorities of improving basic health and education and the reduction of poverty. A new IMF-World Bank Poverty Reduction and Growth facility will help to ensure:

- better targeting of budget resources on health and education;
- better monitoring of country's expenditures;
- country ownership of the poverty reduction process; and
- monitorable performance indicators.

3.9.41

These developments offer new hope to families and children in the world's poorest countries. By targeting resources on priorities in health and education, including prevention and treatment of AIDS and measures to reduce infant mortality, real social progress can be achieved.

In pursuing these objectives the department will

- maintain a professional, well motivated and outward looking organisation committed to open and accountable conduct of policy both here and abroad;

PSA targets:

- achieve Investors In People accreditation by 2000;
- achieve a declining trend in excessive hours worked over the years 1999, 2000 and 2001;

- meet targets for correspondence and Parliamentary response times;
- complete an information strategy review by Spring 1999 which will examine internal business processes and recommend best working practices, and adopt recommendations on better inter departmental coordination;
- move to electronic publishing of material hitherto published on paper;
- reduce the number of unfilled vacancies by 10% by October 2000, and achieve a reduction of two weeks in the length of unfilled vacancies by December 2000 against 1999 benchmarks;
- increase the proportion of business undertaken electronically, in accordance with government targets, to more than 25% of external communications by 2002, and set a target by 31 March 1999;

3.10 The department's needs

3.10.1

As the previous sections have explained, the Treasury is delivering an extensive range of changes in the economy and improvements to public services. To do this effectively it needs

- to have skilled, well motivated people;
- to equip them with the proper tools for the job; and
- to communicate effectively with the outside world (which includes being receptive to ideas and information and "joining up across Government);
- to use its resources efficiently and effectively.

3.10.2

Staff numbers at 1 April 2000 are included in the organisation chart (Chart 2A) in Chapter 2. Planned staff numbers, including the DMO and OGC, are set out in Table 16.4.

Skilled, well-motivated people

3.10.3

The following paragraphs describe our approach to recruiting, training, developing motivating and rewarding staff. In all these areas the Treasury's approach is underpinned by recognising and improving the contribution which investment in staff can make towards meeting its objectives and targets - the principles of Investors in People (IiP). The Treasury gained IiP accreditation in December 1999, following an intensive action programme pursued at all levels of the department. The Treasury's assessor considered the progress made by the department to be 'phenomenal'. Our approach to gaining and sustaining our IiP

status is buttressed by the Treasury Career Deal. This was subject to consultation in the department and sets out clearly the working atmosphere we are trying to establish and what we offer by way of development opportunities and career progression for all who wish to exploit their talents.

3.10.4

To maximise its effectiveness the Treasury needs to employ people with a wide range of experience and background. Its staffing is at present not truly representative of the diversity of the UK population: to that extent the department is not maximising its effectiveness. Actions in hand to remedy this are described below. Also below is a description of the steps being taken to increase interchange of staff between the Treasury and other employers.

Recruitment

3.10.5

The department's recruitment procedures and the Civil Service Recruitment Code are based on the principles of full open competition and selection on merit. Over the 12 months to December 1999, we have recruited in the categories shown in the table opposite.

3.10.6

In the autumn of 1999 the Treasury launched its own Graduate Recruitment Scheme, to supplement the intake of graduates with high potential recruited through the Civil Service Fast Stream Development Scheme. The opportunities were advertised widely to encourage those with a range of backgrounds to apply.

3.10.7

The selection process concluded in early March 2000. The process identified 27 candidates (20 policy analysts and 7 economic assistants) who successfully met the final selection criteria. To date, 16 successful candidates have accepted the Department's formal offer of employment. In line with our aim to encourage diversity and attract candidates from a range of backgrounds, of those who have accepted, almost two thirds are from non-Oxbridge universities. The scheme will be evaluated during 2000.

3.10.8

In 1999 the Treasury advertised an open competition to recruit people into two key Senior Civil Service posts in the Public Services Directorate.

3.10.9

The Treasury also ran and completed two recruitment programmes at Range E, the first for policy analysts and the second for Economic Advisers. Both schemes supplement the internal promotion arrangements to meet the department's staffing needs at this level. The policy analyst programme was a pilot, and the criteria and selection mirrored those for internal promotion, which takes place through an assessment centre process.

3.10.10

The recruitment of Economic Advisers is well established. Following the summer recruitment programme, a further recruitment exercise was launched in January 2000, to meet the growing demands for people with economic expertise. Economic Advisers are recruited on fixed term contracts. 4 fixed term contracts were converted to permanent contracts in 1999.

3.10.11

The Treasury has recruited two people under the Government's New Deal policy, including one to a post in the Chancellor's private office. A third is about to join the department, and we intend to recruit more during the coming year

3.10.12

During 1999, 175 staff left the department through retirement, permanent transfers or loan to another department, resignation or the completion of their fixed term contracts, casual appointments or secondments. The last formed the largest group with 37% of the total.

Staff Development

3.10.13

Following its initial accreditation as an Investor in People in December 1999, the Treasury will continue to develop best practice in training and development, and will seek reaccreditation for this award at broadly annual intervals. The training needs of people in junior ranges will be reviewed and the necessary changes will be made to the Treasury Development Programme during 2000 to ensure it is more inclusive of everyone in the department.

3.10.14

The Treasury Development Programme (TDP) was reviewed in 1999 to ensure that it continues to meet the department's needs. The aim of the Programme is to raise the level of professionalism within the Treasury by ensuring that those working in the core policy areas have a comprehensive and

current knowledge and understanding of economic and financial issues affecting the UK, Europe and the rest of the world. The Programme also provides management training for people at all levels. Most training is delivered by external suppliers.

3.10.15

During 1999, over 3000 days were spent on training. Around half of these were spent on TDP training; around a third on non-TDP training including IT training, and the remainder on in-house training for induction appraisal and external training. The department also has a policy of encouraging and funding further education in subjects which are relevant to the work of the Treasury. A dozen people benefited from this in 1999. In addition to our policy analysts who are also economists or statisticians, a further 91 staff are trained in specialist areas such as IT, personnel, accountancy or procurement, and another 44 are undertaking similar qualifications.

3.10.16

A pilot project for National Vocational Qualifications was completed in November 1999. 14 people completed the project successfully, achieving NVQ level 2 qualifications in administration or management.

3.10.17

The department continues to offer 360 degree feedback to anyone who manages 2 or more people. In 1999, 25 people took up this opportunity. A second round of such feedback is to be provided for senior staff as part of civil service reform.

3.10.18

The Treasury participated in the Prince's Trust Volunteers scheme which is aimed at 16 to 25 year olds. In 1999, two people in the Treasury took part in the scheme which is designed to develop inter-personal skills through team challenges.

3.10.19

During 1999 the Treasury commissioned work to identify problems and solutions in managing stress in the department.

Recruitment over the 12 months to December 1999

Pay range	Pay maximum/ minimum	Casual and exceptions	Secondments	Permanent/ transfers reinstatement	Fixed term recruitment	Permanent recruitment	Total
A	10,250 -14,901	43	0	2	5	0	50
B	11,275-18,966	3	0	1	4	3	11
C	14,000-24,319	12	0	0	0	2	14
D	19,000-35,514	5	3	2	0	16	26
E	32,000-48,767	0	9	1	7	0	17
Senior Civil Service	41,550-139,999	0	0	0	2	0	2
TOTAL		63	12	6	18	21	120

Motivation and Reward

3.10.20

The most powerful source of motivation continues to be the intrinsic interest and challenge of the varied work in the department, coupled with the recognition given to people - either directly, or through the development opportunities offered them - of the value of their contribution.

3.10.21

Pay is clearly a motivator too. For staff below the Senior Civil Service, within an overall settlement worth 2.7%, increases introduced in April 1999 were all related to performance and were dependent on the overall report mark and current salary.

3.10.22

Pay for the most senior staff continues to be set within a framework which applies Civil Service wide. However, the Treasury has implemented arrangements within this which follow closely the approach adopted for other staff by using broad pay ranges which allow scope to reward people according to their contribution and pay progression arrangements linking pay strongly to performance.

3.10.23

The table below shows the pay of Treasury staff in the Senior Civil Service as at 1 April 1999:

3.10.24

The work the department has been carrying out in reviewing its pay and appraisal systems will continue into 2000 and will take account of proposals, stemming from the "Modernising Government" White Paper, which are being considered civil service wide.

Diversity

3.10.25

As noted above, the Treasury's staff needs to reflect the diversity of the UK population if its objectives are to be delivered with maximum effectiveness. The Treasury is developing an action plan in this area which will require changes to its culture as well as the operation of its personnel systems.

3.10.26

The department already has policies in place to guard against discrimination on the grounds of gender, marital status, race, colour, nationality, ethnic origin, disability, religion, sexual orientation, age or background. It aims to ensure that there are no unfair or unlawful discriminatory barriers to employment or advancement within the department.

3.10.27

Data on recruitment, promotion and staff appraisal are collected and analysed in order to monitor the effectiveness of diversity policies. Towards the end of 1999, the department commissioned an external audit of recruitment, posting, appraisal and promotion systems to identify whether they

provide equality of opportunity regardless of gender or ethnic origin of staff and to identify any barriers to equality in the systems and recommend solutions.

3.10.28

The Treasury will continue to monitor progress of women throughout the organisation and make it clear when advertising, through open competition and recruiting externally that applications from women, and other under-represented groups would be very welcome. In 1999 40% of staff in the Treasury were women, compared to 42% in 1998. Of the 120 people recruited in 1999, 40% were women. 19% of senior civil service staff in the Treasury were women, compared with 17% the previous year. 11% of staff in the Treasury in 1999 were from ethnic minorities, compared to 12% in 1998. Of those recruited in 1999, 12% were from the ethnic minorities.

3.10.29

The Treasury has adopted a departmental action plan on disability designed to eliminate any barriers which might exist to the employment and progression of disabled people within the department. In order to meet its obligations under the Disability and Discrimination Act 1995, the Treasury surveyed all of its staff during the course of the year, and in the light of the response, is reviewing its systems and procedures to ensure that they do not discriminate against disabled staff.

Treasury Senior Staff pay as at 1 April 1999

Salary band	Number of staff	Salary band	Number of staff
below £40,000	-	£70,000-£74,999	6
£40,000-£44,999	7	£75,000-£79,999	4
£45,000-£49,999	14	£80,000-£84,999	-
£50,000-£54,999	13	£85,000-£89,999	-
£55,000-£59,999	22	£90,000-£94,999	-
£60,000-£64,999	6	£95,000-£99,999	2
£65,000-£69,999	4	£100,000 and over	5

Interchange

3.10.30

The Treasury has a long tradition of openness to staff from outside. It brings people in on loan or secondment from other Government departments and other employers, including the private sector or the European institutions. It also operates loans

and secondments in the opposite direction. These measures help to encourage the cross fertilisation of ideas and approaches, as well as providing development opportunities for those with particular skills, experience and specialisms. Greater use of such interchange is one of the themes of civil service reform.

3.10.31

The total number of staff on loan and secondment, inward and outward, during 1999 was 406. Of the staff on loan or secondment out as at 1 December 1999:

- 83% are in other Government Departments;
- 10% are overseas; and
- 7% with the private sector.

3.10.32

Incoming staff are drawn from other Government Departments, local authorities the private sector, the European Commission and foreign governments, major UK companies including Brunswick, Slaughter & May and Manpower and a number of management consultancies such as Price Waterhouse Cooper and Deloitte and Touche.

3.10.33

The Treasury will continue to give high priority to inward and outward secondments with European institutions and the private sector. It is committed to ensuring that staff at all levels benefit from gaining experience outside the Treasury and, indeed, outside Whitehall and to employing a more diverse group of people. It aims to increase the proportion of women, ethnic minorities and disabled people and those from different educational backgrounds and lifestyle, at all levels.

Proper tools for the job

Accommodation

3.10.34

On 27 July 1999, Ministers announced their approval of plans to refurbish the department's main building in Parliament Street (GOGGS) to deliver modern, efficient office accommodation.

3.10.35

The new accommodation is to be provided under the terms of an innovative PFI deal with Exchequer Partnership plc (EP). A Project Agreement - subject to funding and town planning approval - was signed with EP on 5 August. The project is the first to follow the Treasury Task Force Standard Contract Guidance, and the first where the service provider, in partnership with the department, has put the debt financing out to competition after finalisation of the Project Agreement.

3.10.36

Under the terms of the contract, EP will provide refurbished,

fully serviced accommodation in return for an annual payment. Payment will be on delivery: if the accommodation becomes unavailable, or the services are not to standard, then EP will suffer financial penalties. EP must ensure that the building complies with best practice with respect to environmental standards, and that it complies fully with the Government's "green policies", particularly energy targets.

3.10.37

Work is expected to start on site in June 2000 and take two years to complete. The whole department will then be accommodated under the same roof for the first time in more than 50 years.

3.10.38

The developing proposals for the building have made long term investment in energy saving measures inappropriate. Instead, the department has targeted simple, inexpensive, improvements with short payback periods. An energy monitoring contract has been let which enables us to monitor and target all utilities more effectively and has already resulted in a substantial saving on our water bill. Paper recycling figures continue to improve and are currently running at 350% above 1998/1999 figures. The department has:

- updated its environmental policy in line with the DETR framework document;
- undertaken a Building Research Establishment's Environmental Appraisal Method (BREEAM) assessment. An excellent rating has been awarded.

Information systems

3.10.39

Information technology plays a crucial role in allowing the Treasury to do business flexibly and efficiently.

3.10.40

In spring 1999 the Treasury produced a new information strategy, providing a framework for the future development of its information technology systems. The new strategy, which supports the Modernising Government White Paper objectives, was based on an assessment of the department's business needs and reflected a wide consultation across the Treasury. The strategy was approved in July 1999 and will be reviewed during 2000.

3.10.41

The Treasury's office automation system will be refreshed during 2000. This will provide staff with the latest tools they need to do their jobs and will bring the technology more into line with that used by other departments. This will facilitate both joined up government and closer relations with the outside world.

3.10.42

For several years, people working in the Treasury have been able

to communicate both internally and externally via e-mail. In 1998 an e-mail connection was established to the Government Secure Intranet (GSI). The Treasury has now become a full participant in the GSI, so that everyone now has access to the public Internet from their desktops. People can also read and will be able to contribute to the secure Government-only pages on the GSI that might support any cross-cutting issues.

3.10.43

Since 1998, the Treasury's electronic document management system, SAROS, has been the principal store for the department's corporate records. The Treasury has continued to work on its document management systems throughout the year to ensure that by 2004 it meets the Government's target that all newly created public records will be stored and retrieved electronically.

3.10.44

The ability to keep in touch via e-mail and to work on documents when away from the office has become more and more important. After the completion of a successful pilot, the Treasury is now able to offer remote working facilities on a laptop for everyone who requires them. A secure connection to the Treasury's office system, OASIS, means that information accessible at the office is also accessible remotely.

3.10.45

Adding full records management capability to the Treasury's electronic document management system will be considered during 2000. This would enable the Department to manage electronic records throughout their life from creation to disposal or archiving. As the Internet or the Government Secure Intranet (GSI) rapidly becomes the preferred means of publication of Government information, a web publishing capability will be added to our electronic document management system.

3.10.46

The Treasury's own Intranet will be redeveloped during 2000. All corporate information will be published there, and the intranet will serve the department as a clearly signposted gateway to the Internet, the GSI and many internal Treasury services.

3.10.47

Video conferencing was piloted in the Treasury during the autumn of 1999. Fully operational systems were installed by the start of 2000. This should lead to improvements in the way in which the Department communicates with other organisations, both here and abroad.

Open and accountable conduct

Receptiveness to ideas and information

3.10.48

The department continues to attach considerable importance

to advancing contacts with industry over and above those made in the normal of course of business. Such visits can be useful in developing a wider understanding, on both sides, of Government economic policies and their impact. A number of visits to industry have been made by Treasury officials, across all levels, under the Contacts With Industry Scheme. These have extended across a number of sectors including, communications, manufacturing, construction, financial services and it is hoped to extend this still further by contacting health-based companies and others. The feedback from companies has again been positive, and there are a number of proposed visits, to different sectors, logged for the future. The department encourages officials to visit other organisations such as local authorities, hospitals and universities.

3.10.49

Whole teams and individual members of teams in the Public Services Directorate visit frontline public service providers to see the public services in action as well as continuing to work with departments to foster mutual understanding and to clarify their respective roles. Teams are set specific objectives to encourage them to forge open, constructive relations with their departments and regular feedback is sought from the departments by senior management to check that everything is being done to ensure the best possible working relationship.

Joined-up government

3.10.50

The Treasury is helping to design policy around shared goals and carefully defined results, not around organisational structures or existing functions. The Treasury has established fourteen cross-cutting reviews to look at better ways of tackling problems across Departmental boundaries. It has contributed to a Policy and Innovation Unit (PIU) study on how current accountability arrangements and incentive systems can be reformed to facilitate joined up government. A report *Wiring it Up* was published by the PIU on 13 January 2000. Work has been completed on an internal study on improving the management of cross-cutting issues.

Providing information

3.10.51

The Treasury is committed to Open Government. It has continued to identify opportunities to publish information and to consult whenever possible. Examples are set out below. All requests for information are dealt with in accordance with the Code of Practice on Access to Government Information, whether classified as formal requests under the code or not.

3.10.52

The Treasury issued over 200 Press Notices in 1999 and held a number of Press conferences and briefings - one of the most significant of which was the announcement by the Chancellor of the Exchequer, in December 1999, on removing the burden of debt owed to the UK by the world's poorest countries.

3.10.53

The Treasury's Internet Service is continuing to attract users with over 50,000 accesses a week. A wide range of material is available including press notices and ministerial speeches and Treasury publications. In 1999, the Pre Budget Report was available on line within minutes of the Chancellor finishing his statement in the House of Commons. More than 600 organisations and individuals subscribe to receive Press Notices by e-mail.

3.10.54

The Treasury provides a one-stop service for non-media enquiries for information and publications on Treasury policy. On average this unit answers up to 3000 to 4000 enquiries a month, with about a third of these calls requesting Treasury publications. New computer telephony systems will be introduced during 1999 - 2000, which will increase capability to provide current information on demand.

3.10.55

In 1999:

- The Treasury's Open Government Contact was notified of 24 formal requests under the Code of Practice, compared to 12 in 1998.

The Treasury received:

- 14,800 letters (18,000 in 1998) which were responded to by Ministers, and
- 42,000 other items of correspondence (37,000 in 1998) to which officials replied on behalf of Ministers.
- The Public Enquiry Unit dealt with over 42,000 enquiries during 1999-2000, an increase of 10 % on 1998-1999.

3.10.56

The Department continues to develop the quality and range of its publications output. The Department is developing publishing guidelines which will improve the presentation and accessibility of material which it publishes. Key policy publications in 1999-2000 included:

- The Third Pre-Budget Report, November 1999
- The Government's fourth Budget on 21 March 2000
- A Second Outline National Changeover Plan
- Government Construction Procurement Panel publications (including three new procurement guidance notes, and two co-publications: **A pilot bench-marking study**; and **Constructing the Best Government Client**.)
- Peter Gershon's **Review of Civil Service**

Procurement, was published at the same time as Sir Malcom Bates' **Second Report on the Private Finance Initiative**;

- The Treasury Private Finance Initiative Taskforce publications (Policy Statements and Technical Notes, and Guidance on the Standardisation of Private Finance Initiative Contracts)
- **Public Private Partnerships: the Government's Approach**, which was published on 15 March.
- further titles in the series; "*The Modernisation of Britain's Tax and Benefit system*" (published as part of the associated Budget and Pre-Budget documents): **Tackling poverty and extending opportunity**; **Persistent Poverty and "Supporting Children Through the Tax and Benefit System"**
- Lord Alexander of Weeden's report on Tonnage Tax for shipping;
- Don Cruickshank's Interim Report on the **Review of Banking Services**;
- Policy Action Team 3's report on **Enterprise and social exclusion**;
- Policy Action Team 14's report on **Access to Financial Services**, together with the Credit Union Taskforce's report on **Credit Unions for the Future**

Information on the Euro

3.10.57

The Government is committed to ensuring the UK has a genuine option to join the euro if that is what Government, Parliament and the people, in a referendum, decide. That is why the first Outline National Changeover Plan was published in February 1999. Since then, the Government has set up a new inclusive Project Management Group to oversee the current phase of planning work. Changeover planning is being taken forward in a variety of working groups. Key departments that need to spend money to give the UK a genuine option to join early in the next Parliament have been identified. Every department has a Minister responsible for euro preparations and all Government departments and key agencies produced their own outline changeover plans by the end of 1999.

3.10.58

Work has continued with business to secure the right level of planning and preparation in the UK both for working with the euro now, and the possibility of UK entry. A third report on euro preparations was published in November 1999.

3.10.59

Work on euro preparations for business, particularly small and medium-sized enterprises (SMEs), has trebled the number of

firms actively making preparations. Key activities have included:

- a major award-winning advertising campaign;
- dealing with requests for 400,000 sets of factsheets;
- sending a euro preparations leaflet to 800,000 businesses;
- taking forward activity at a local level through 12 Regional Euro Forums;
- publishing a series of 'business-to-business' case studies;
- the maintenance of a dedicated website providing SMEs with information they need to remain competitive in the new Europe-wide business environment.

The environment

3.10.60

The department is committed to achieving continual improvement in environmental performance and, amongst other things, will:

- consider the feasibility of seeking accreditation to ISO14001 for its office services operations;
- revise and update its Green Transport Plans;
- continually review and audit its environmental policy;
- set systems in place to achieve the new energy targets that will apply to the Government estate from 1 April 2000.

3.10.61

The department's Green Minister is the Financial Secretary, Stephen Timms MP, whose responsibilities include:

- raising awareness of the three strands of sustainable development (economic, environmental and social) within and across Government;
- promoting the use of environmental appraisals as an integral part of the policy making process;
- promoting improvement in the environmental impacts of the department's operations.

3.10.62

The "green" contact at official level is Andrew Holder in the Agriculture, Environment and Rural Policy team (tel 020 7270 4549).

In pursuing these objectives the Department will

- manage its running costs efficiently, economically and effectively.

PSA targets

Departmental Operations

- Deliver 2.5% annual efficiency gains and secure at least 2.5% savings of running costs in real terms each financial year from 1997-98

Better Quality Services

- Rolling Programme to be devised.

Procurement

- Review the application of procurement techniques to all expenditure.
- Transact 90% of procurement of standard goods by volume to be purchased electronically by 2000.
- Make all payments to suppliers by electronic transfer by December 2000.
- Collaborate in joint procurement projects when they offer better value.
- Pay all valid invoices within contractual conditions, or 30 days of receipt of the invoice, or delivery of the goods or service, whichever is the later.

Fraud

- A fraud policy statement will be issued for the department by 31 March 1999.

3.11 Resources

3.11.1

Table 3A sets out the Treasury's Departmental Expenditure Limit (DEL), which shows a small reduction between 1999-2000 and 2000-01. The main features are

- a small increase between 1999-2000 and 2000-01 in the Treasury's underlying running cost provision, which represents just over a quarter of the DEL;
- the cessation from April 2000 of a capital charge on the Department's main building following the transfer of its head lease to Exchequer Partnership under the PFI agreement described in paragraph 3.10.35. This notional charge was debited to the Department's running costs and credited back to the remainder of its programme. The cessation of the charge is the main factor behind the fall in the Department's total gross running costs;
- the costs of the Financial Services Authority's regulation of the insurance industry are met from outside running cost controls. The Department collects fees from the insurance

industry which meet the bulk of these costs; these score within the “net cost” total. Subject to the passage of the Financial Services and Markets Bill a new regime will be introduced during the financial year. This will be reflected in a Supplementary Estimate;

- the Office of Government Commerce comes into being from April 2000. The Property Advisers to the Civil Estate will be transferred from the Cabinet Office to the Treasury on that date, to form part of the Office. To allow proper comparison between years its costs for 1999-2000 have been included in the table, following the normal convention on Machinery of Government changes.

3.11.2

There have been efficiency improvements in many parts of the Department. The Better Quality Services initiative is being progressively implemented throughout the Department. In many areas this will be done by application of the EFQM Business Excellence Model. A trial of the model in the Public Services Directorate is just being completed. It has already identified areas for improvement and an action plan is being drawn up.

3.11.3

The Treasury complies with BS7890, the British Standard for Achieving Good Payment Performance in Commercial Transactions. The department's policy is to pay all bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. The Treasury only pays 50% of its invoices by conventional means and it expects to pay 97% of these within 30 days, by the end of the 1999-00 financial year, compared to our performance of 93% last year and the PSA target of 100%. The other 50% of Treasury invoices are paid by the Government Procurement Card (GPC) where 100% of these are paid within 4 days.

3.11.4

At the time of publication, the department had achieved savings of around £0.5 million on contracts covering spend over the next three to five years with a value of around £1.6million. These savings are a result of internal negotiations resulting in change to requirement and/or reduction in specification; negotiations with suppliers to reduce costs or provide added value at no extra cost. Both these routes are intended to achieve best value for money without sacrificing quality. The introduction of the GPC has resulted in a potential saving of about £150,000 a year. This is due to a reduction in transaction costs of about 60%. The real saving realised so far is about £50,000, due to not having to employ two extra staff to help process invoices. Treasury expenditure is constantly being reviewed to ensure that, where possible, procurement techniques are being applied to those areas that will benefit from such expertise.

3.11.5

75% of all payments made by the Treasury are now paid by electronic means compared to 67% last year.

3.11.6

The Treasury currently orders 90% of standard goods electronically.

3.11.7

A fraud policy statement was issued on 31 March 1999.

Summary of Departmental Investment Strategy

3.11.8

Capital expenditure is carried on HM Treasury's Vote, Class XVI Vote 1.

3.11.9

The Treasury's approach is to seek private sector involvement where possible, for example in the repair and refurbishment of the department's main building in Parliament Street (GOGGS), see below. The capital allocation also provides for a small ongoing programme of investment in the development of information technology in order to provide the systems to help the department in meeting its objectives and for the systems which the Debt Management Office needs to have in place to carry out its work.

3.11.10

The Treasury's aim and objectives are set out in Chapter 1 of this report.

Investment strategy

3.11.11

The number of operational assets employed by the Treasury is relatively small and at 31 March 1999 the total net book value was £3.5 million.

3.11.12

These assets consist mainly of the IT systems, equipment and associated software, plus furniture and other office equipment which enable the department to carry out its business and meet its objectives. New investment over the next three years will be mainly in IT. This investment is largely routine and competing requirements are assessed by the Treasury Management Board as part of the internal budgeting process. Provision in each of the next two years is £1.72 million and £0.94 million.

Accommodation and involvement of the private sector

3.11.13

The Treasury are the major occupiers of GOGGS, which is a Grade II* listed, headquarters building occupying a prominent

site on the corner of Parliament Square. The Treasury also has use of a leasehold building in Victoria. Plans to refurbish GOGGS under the terms of an innovative PFI deal are set out in paragraphs 3.10.34 to 3.10.38.

3.11.14

It is planned that the department will move into the new building in the summer of 2002. The Treasury's accommodation supports all of its objectives.

Information technology

3.11.15

The bulk of the department's agreed capital provision of £1.72 million in 2000-01 is to meet the costs of information technology and telecommunications in both the department itself and in its agency the Debt Management Office (DMO). Commentary on the department's information systems is set out in paragraphs 3.10.39 to 3.10.47 above.

3.11.16

The Treasury is also committed to increasing the proportion of its business undertaken electronically, in accordance with Government targets, to more than 25% of external communications by 2002.

3.11.17

The department will also fully comply with all central initiatives to enhance efficiency and realise better value for money in public procurement. This will include, by December 2000, electronic transaction of the procurement of 90% of standard goods by volume and the payment of all suppliers by electronic transfer. Further detail on procurement is set out in paragraphs 3.11.3 to 3.11.6.

Health & safety

3.11.18

The Treasury recognises and accepts its responsibility as an employer for ensuring, as far as is reasonably practicable, the health, safety and welfare at work of all employees and others who may be affected by its activities. It takes a proactive and structured approach to identifying hazards in the workplace and evaluating and controlling work related risks. The Department also recognises the continuing need to be aware of Health and Safety issues some of which may impact on capital investment.

Environmental management

3.11.19

The Treasury is concerned about the environment and recognises that good environmental management must be an integral and fundamental part of its corporate business strategy, see paragraph 3.10.60. Our environmental policy supports the United Kingdom's strategy for sustainable development. It sets out a programme of continuous improvement to reduce the

harmful impacts of our operation on the environment and to prevent pollution.

3.11.20

The Treasury accepts that there are sound economic reasons for reducing work-related accidents and ill-health and for improving the quality of the work environment.

Disposals policy

3.11.21

The department seeks to obtain value for money from disposal of any Treasury property. Disposals are generally of redundant IT equipment, furniture and various other items. They are carried out on an ad hoc basis and there is no current forecast of receipts.

3.11.22

The Treasury also has a policy of disposing of its share and bond portfolio when disposal offers best value for money.

Debt Management Office (DMO)

3.11.23

The DMO's capital provision is mainly in respect of its plans to procure an electronic document management system, any residual software enhancements and associated equipment needed to carry out its new cash management responsibilities, and any plans to move to a system of electronic bidding. A small element of provision will also cover the upgrading of some existing IT systems and accommodation needs.

3.11.24

This investment is aimed at helping the DMO to meet three strategic objectives:

- to provide, including in liaison with the Bank of England and CrestCo, a high quality efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance;
- to offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner; and
- to resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure.

These in turn support the Treasury Objective 8.

3.11.25

As the organisation only came into existence in 1998-99, DMO currently has no plans for disposals.

TABLE 3A: THE TREASURY'S DEPARTMENTAL EXPENDITURE LIMIT (DEL) (£MILLION)

	1999-00 £m	2000-01 £m
Gross running costs	69	66
<i>of which:</i>		
capital charge	5	0
Debt Management Office	4	5
other running costs	60	61
Receipts of insurance fees	-12	-14
Other receipts	-3	-2
Net cost	53	50
Payments to the Financial Services Authority	12	15
Capital charge receipt	-5	0
Other receipts	-2	-1
Parliamentary bodies	2	4
Statistics Commission	0	1
Other current expenditure	14	10
Capital expenditure	6	2
Office of Government Commerce	77	77
Programme expenditure*	63	60
Departmental Unallocated Provision	2	4
Total other costs	169	171
Total DEL	222	221

* Includes expenditure on Bank of England services in relation to debt management and the Exchange Equalisation Account; costs of UK coinage; pension payments in respect of Members of the European Parliament and the Royal Household; and Civil List payments.

TABLE 3B: BREAKDOWN OF FORECAST OUTTURN FOR 1999-00 BY INDIVIDUAL FUNCTION - VOTE 1: HM TREASURY (£ Thousands)

Direct expenditure			Grants and transfers		Gross total	Appropriations in aid	Net total
Running costs	Other current	Capital	Current	Capital			
68,798	21,639	5,485	1,928	-	97,850	-17,578	80,272

TABLE 3C: APPROPRIATIONS IN AID 2000-01 - VOTE 1: HM TREASURY (£ Thousands)

Section A	Recoveries in respect of the administration of the Treasury, including charges for courses, services provided by the Economists Group Management Unit and officers loaned to other organisations, including the salary of the UK Executive Director of the International Monetary Fund/International Bank for Reconstruction and Development who is a Treasury employee; income from publications; travel costs recovered from the European Community; disposal of assets; recoveries from staff and in-house services; recoveries of costs from minor occupiers; and receipts for VAT refunds on contracted out services and European fast Stream receipts from Cabinet Office.	2,455
Section A	Receipts from recovery actions in connection with Barlow Clowes	1
Section A	Receipts from fees charged to foreign investment exchanges/clearing houses	90
Section A	Receipts in respect of insurance sponsorship and supervision responsibilities	13,900
Section B	Receipts due to the Debt Management Office for advertising costs, stock exchange listings and the facilitation of data provision	890
Section E	Recoveries in respect of honours and dignities	7
Total		17,343

TABLE 3D: CONSOLIDATED FUND EXTRA RECEIPTS (CFERS) 2000-01 - VOTE 1 (£ Thousands)

Interest payments	110
Dividends	49,248
Miscellaneous	1,775
Total	51,133

TABLE 3E: APPROPRIATIONS IN AID 2000-01 - VOTE 3: OFFICE OF GOVERNMENT COMMERCE (£ Thousands)

Section B	Receipts from the costs of computer and telecommunications procurement services; receipts from minor occupiers and other services. For fees for training courses and consultancy and for miscellaneous hirings and lettings.	37,216
Section C	Receipts from temporary hirings of vacant property, disposals of freehold and leasehold interests, and from charges levied on users of the Whitehall District Heating System and Whitehall Standby Distribution System, for sale of surplus electricity generated by Whitehall District Heating System and for customer services.	14,355
Total		51,571

3.12 BIBLIOGRAPHY and FURTHER READING

Most titles available free of charge (unless otherwise stated) from:

Public Enquiry Unit
HM Treasury
Parliament Street
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Mike Williams
Chief Executive

Debt Management Office



HM Treasury:UK Debt Management Office

4.1 Introduction

The UK Debt Management Office (DMO), an Executive Agency of the Treasury, came into existence on 1 April 1998. The DMO's brief is to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way, in both cases consistently with the objectives of monetary and any wider policy considerations.

The DMO has been discharging its debt management responsibilities since inception. In the past year it has taken steps to promote greater transparency of its operations (eg increased contact with market participants via the internet). It has also consulted the market closely and has implemented innovative reform such as the introduction of switch auctions to help promote liquidity in benchmark stocks. In addition, the DMO has consulted the market about the introduction of a standing repo facility. Looking to the future, it has published a consultation document about the options for the structure of the secondary market for gilts in view of possible moves to electronic trading.

Setting up the Exchequer cash management operation has been a major element of the DMO's 1999-2000 workplan. Cash management came on stream over a transitional period. The new Debt Management Account – through which the DMO's gilt and cash transactions pass, came into operation on 14 November 1999 (dealing initially with gilts only). The DMO took over operational responsibility for weekly "structured" Treasury bill tenders from 14 January 2000, and began a limited range of bilateral transactions in the money markets from 14 February 2000. The new cash management regime is planned to be fully operational from the start of the 2000-01 financial year.

4.2 DMO Strategic objectives:

- i) To meet the annual remit set by Treasury Ministers for the sale of gilts, with high regard to long term cost minimisation taking account of risk.
- (ii) To offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner.

- (iii) To advise Ministers on setting the remit to meet the Government's debt management objectives, and on any future modification to the Government's cash management objectives; and to report to Ministers on the DMO's performance against its remit, objectives and targets.
- (iv) To develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt markets that will help to lower the cost of debt management, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange, and other bodies; and to provide policy advice to Treasury Ministers and senior officials accordingly.
- (v) To conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts.
- (vi) To provide, including in liaison with the Bank of England and CrestCo, a high quality efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance.
- (vii) To contribute to the Treasury's work on the development of the strategy for the debt portfolio.
- (viii) To make information publicly available on the debt markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of debt issuance.
- (ix) To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value of money in its administrative expenditure.
- (x) To develop appropriate management, information and control systems with high regard to risk minimisation; and to ensure full and accurate presentation of accounting and other information.

4.3 Main Aims Over Next Three Years

For 2000-2001, a key priority will be the successful embedding and operation of the management of the Exchequer's aggregate cash requirements.

Ongoing strategic priorities for DMO will be to:

- (i) continue to meet the remit with a high regard to long run debt interest cost minimisation;
- (ii) maintain market liquidity by: developing benchmarks; responding to market needs; implementing sensible convention changes; being transparent in the supply process; encouraging a competitive, orderly and well-regulated market in both cash and derivatives;
- (iii) respond to market developments and customer needs through consideration of new products, changes of techniques and development of the management of the existing portfolio;
- (iv) support and develop initiatives that will reduce unanticipated fluctuations in the Exchequer's cashflow through more focussed forecasting and timely engagement in the market;
- (v) provide a high quality and efficient service to customers – variously investors and primary dealers – and be held in high regard by them.

4.4 Additional Information

For copies of DMO annual reports and accounts contact Lisa Neeve on 020 7862 6525. The DMO's website, at www.dmo.gov.uk, includes details of the current year's business plan.

DMO: Performance against targets to 29 February 2000

1. To ensure full compliance with the Government's remit for the issuance of debt to finance the Central Government Net Cash Requirement as set out in the Debt Management Report within the tolerances and subject to the review triggers notified separately to the Office.

The DMO complied fully with the remit as issued in the Debt Management Report after the March Budget, and as subsequently revised on 20 April and on 9 November in the Pre Budget Report. On 20 April, the date of the June auction was brought forward by one day to avoid coincidence with the publication of the June MPC minutes. The revisions following the Pre Budget Report were more substantial, involving the cancellation of a conventional gilt auction scheduled for March 2000 as a consequence of the publication of a revised gilt sales requirement of £14.2 billion (compared with £17.3 billion in the original remit). Gilt sales to the end of February were £13.85 billion.

Four conventional gilt auctions and four index-linked gilt auctions have been held in 1999-2000. The first auction of 4 1/8 % IL 2030 was uncovered (ie of the £500 million (nominal)

on offer, bids were received for only £470.3 million of stock. £40 million of these bids were not accepted for being too low and so only £430.3 million was sold at the auction. The unsold portion was later sold into the secondary market on 19 and 20 May. All other auctions were well covered.

In addition, a conventional gilt tap (of £400 million nominal of 6% 2028) was issued on 6 August 1999 for market management reasons - in line with paragraph 14 of the Remit. This was the first conventional tap since 1996 and its use was designed to ease the prevailing exceptional trading conditions at the long end of the yield curve. The tap successfully eased trading conditions.

The first and only conversion offer under the 1999-2000 remit (from 9 1/2% 2004 into 5% 2004) was also successfully completed. The result was announced on 26 July, with 9 1/2% 2004 being reduced to a small "rump" stock. 5% 2004 was increased from £2,500 million to £6,289 million in issue as a result of the offer.

The first gilt switch auction was held on 21 October (up to £1 billion of 8% 2003 was offered in exchange for 5% 2004). The offer was covered 5.13 times. £1,120 million of 5% 2004 was issued (taking it to £7,408 million in issue) against a purchase of £999.6 million of 8% 2003. This first switch was widely perceived as a success. A second switch auction, of up to £1,500 million of 8% 2015 in exchange for 6% 2028 was held on 9 February 2000. The offer was covered 1.44 times. £1,499.8 million of 8% 2015 was purchased and £1,611.7 million of 6% 2028 issued. 2028 was increased in size to £11.51 billion as a result of the auction and 8% 2015 reduced to £12.29 billion.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes whilst achieving complete accuracy. (This compares with a 45 minute target in place before the DMO was set up).

This was successfully achieved in all cases except the first auction of 6% 2028 in May: the actual times were:

April:	38 minutes	(41/8 % IL 2030)
May:	48 minutes	(6% 2028)
June:	30 minutes	(5% 2004)
July:	30 minutes	(2 1/2% IL 2011)
September:	30 minutes	(5 3/4% 2009)
October:	27 minutes	(2 1/2% IL 2016)
October:	27 minutes	(switch auction into 5% 2004)
November:	32 minutes	(6% 2028)
January:	25 minutes	(2 1/2% IL 2024)
February:	34 minutes	(switch auction into 6% 2028)

The delay to the May auction announcement was primarily caused by the significantly higher than average number of bids received (at 250, this was two thirds greater than the average number received at auctions in the previous three years). The result of the 6% 2028 tap on 6 August was issued after 37 minutes.

3. To establish, with a view to introduction in Q4 1999 (unless market consultation recommends Q1 2000) a system for managing the Exchequer's aggregate cash position which achieves cost-effective financing and is operationally robust, properly conducted, legally sound and subject to minimal credit risk (to the satisfaction of an external assessor).

Work to establish a cash management system in line with this target progressed significantly during over the year with the Debt Management Account beginning operation in 15 November. Following consultation however, full introduction of cash management is not scheduled until the start of the 2000-01 financial year.

4. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account and in delivering money (and reconciling payments) to the NLF.

This target did not come into play until the Debt Management Account commenced operation on 15 November, since when all transactions going through the DMA have met the required standards. NLF balances are checked and agreed with them on a daily basis.

5. To acknowledge all letters from the public within nine working days and for at least 95 per cent to be sent a substantive reply within four weeks. (A tighter target than the previous year when the acknowledgement deadline was two weeks)

37 letters have been received during the financial year to date. In each case replies were sent within the required timeframe. The average time for a substantive response to be sent was 5 working days.

6. To achieve less than ten breaches of the operational market notice (excluding any breaches which the Treasury accept were beyond the control of the Office). (A tighter target than the previous year when the breach limit was twelve).

The first (and to date only) breach of the DMO operational notice took place in connection with the June auction when, on the day after the auction, a small discrepancy came to light between the price bid by one GEMM and that entered into the auction price/allocation model. It was subsequently resolved with the GEMM concerned.

7. To ensure that the qualifications that the NAO have made in respect of the Gilt-Edged Official Operations Account are satisfactorily addressed in the running and presentation of the Debt Management Account.

See response to target 4 above.

Section B: Other Bodies funded by the Treasury Programme

The Treasury programme includes payments to:

- the Royal Mint (a Next Steps Agency) for the supply of UK coins;
- the Bank of England for debt management and management of the Exchange Equalisation Account;
- certain Parliamentary bodies.

Royal Mint

5.1 Introduction

The Treasury programme includes provision for expenditure by the Treasury on the purchase of UK coins of all denominations required for issue to the general public. The Royal Mint manufactures all the coins required by the Treasury and is also responsible for distributing them on behalf of the Treasury. The Royal Mint is a Next Step Agency and details of its performance can be found in the Royal Mint Annual Report.

Expenditure (see Table 5b) depends on the number of coins required by the public, the cost of manufacturing them and on metal prices. Expenditure on UK coinage in 1999-2000 will fall on Class XVI, Vote 2.

Highlights of the Mint's performance in 1998-99 are:

- sales £91.4 million, including £57.6 million (63 per cent) in exports;
- profit £6.3 million (modified historic cost profit - after interest);
- real return 9.1 per cent on modified historic cost capital employed. This gives an average real rate of return for the three years 1996-97 to 1998-99 of 15.2% compared to a target of 14%.

The arrangements under which the UK coins are purchased was reviewed during 1994 and a substantially revised five year contract, incorporating a significant reduction in prices paid, introduced in 1995-96. The impact of these changes is reflected in the unit cost trend at Chart 5a.

5.2 Public Appointments

The Chief Executive of the Royal Mint is Mr R de L Holmes and a complete list of the members of the Board is included in the Royal Mint Annual Report (House of Commons Paper 500 1998-99).

Table 5a Royal Mint Senior Staff Salaries by band

Royal Mint senior staff salaries by band, (as at 1 April 1999):

Salary band	Number
below £40,000	–
£40,000 - £44,999	2
£45,000 - £49,999	3
£50,000 - £54,999	4
£55,000 - £59,999	–
£60,000 - £64,999	–
£65,000 - £69,999	–
£70,000 - £74,999	–
£75,000 - £79,999	–
£80,000 - £84,999	1

Table 5b Breakdown of forecast outturn for 1999-2000 by individual function (£ thousands - inclusive of VAT)

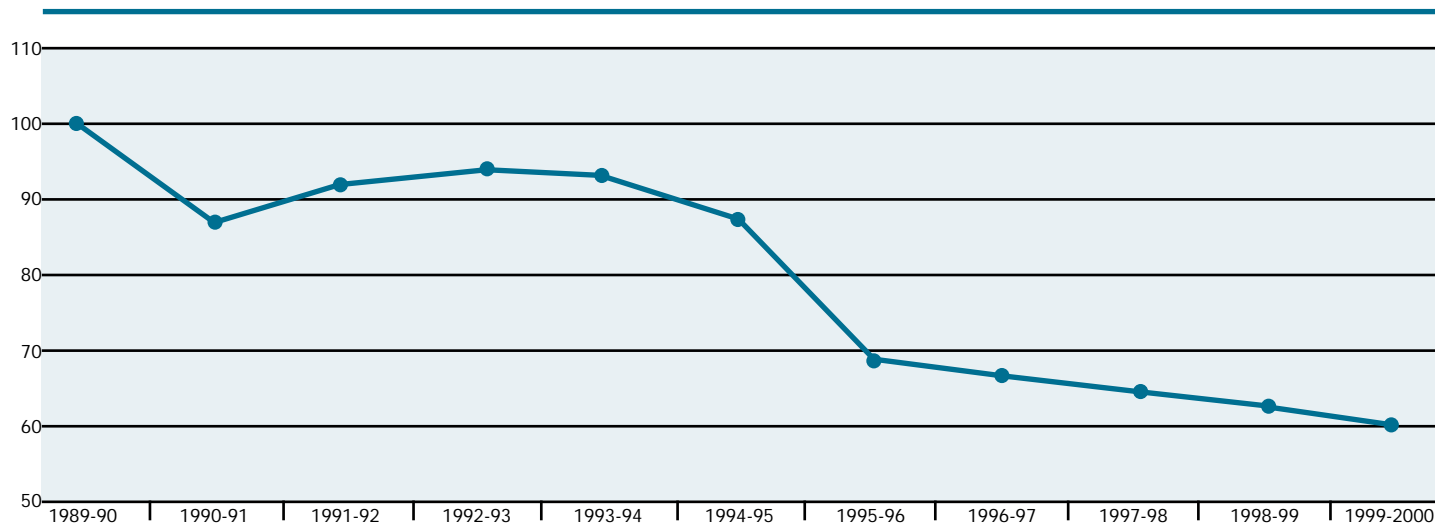
Direct Expenditure		Grants and transfers					Net Total
Running Costs	Other current	Capital	Current	Capital	Gross Total	Appro-priations in aid	
–	35,550	–	–	–	35,550	1,199	34,351

Table 5c Appropriations in aid 2000-01 (£ thousands - excludes VAT)

Proceeds of metal sales from melted down coins	0
Total	0

Note: The gross total in table 5b is inclusive of VAT.

Chart 5a. Real terms unit cost of UK coins (excluding metal).



Bank of England

One of the Treasury's objectives is: "arranging for cost effective management of the government's debt and foreign currency reserves and the supply of notes and coins" (objective 8). The Treasury's budget includes expenditure on the following services provided by the Bank of England:

- The Exchange Equalisation Account including the management of the government's foreign currency debt;
- Gilt Registration.

The Bank of England also manages the production and distribution of bank notes. The value of bank notes in circulation with the public is recorded in the Issue Department balance sheet of the Bank of England. The income of the Issue Department, after deduction of the costs of bank note production and distribution, are paid to the Treasury. For the year ending 28 February 1999, the costs were £59m and the income paid to the Treasury was £1,705m (see page 84 of the Bank's Annual Report 1999).

Under the Bank of England Acts of 1946 and 1998 an annual payment in lieu of dividend is paid to the Treasury. For the year ending 28 February 1999 this was £70m (see page of 64 of the Bank's Annual Report 1999). Details of the Bank's performance across its full range of functions may be found in its Annual Report and Accounts.

6.1 Exchange Equalisation Account

The Bank manages the Exchange Equalisation Account (EEA) in conjunction with the Government's foreign currency debt, consistent with the Government's policy objectives and within the scope of relevant legislation. The Bank aims to minimise the

cost of holding the reserves, within risk parameters agreed with HM Treasury, in line with the Treasury's Public Service Agreement target for reserves management.

Enhancements to the management information concerning the investment of the reserves continue to be made by the Treasury and the Bank. In line with best market practice, the Bank has introduced new management information systems which will enable 'Value at Risk' limits to be set. Value at Risk measures the aggregate market risk of a portfolio. Compared with simpler approaches, such as measuring exposures to parallel shifts in yield curves, it provides a more sophisticated way of gauging the effect on the value of investments of potential changes in the profile of interest rates and exchange rates. In the second half of 1999, the Treasury and the Bank began posting monthly reports on their web sites detailing developments in the UK's official reserve assets and liabilities consistent with the new IMF formats, which provide greater accounting transparency. Early in 2000, the existing monthly and quarterly press releases will be issued on this basis. And later in 2000, it is planned to move to weekly publication of the UK's official reserves and liabilities, again in line with new IMF guidelines.

In May 1999 the Government announced a restructuring of the United Kingdom's foreign currency and gold reserves with the aim of achieving a better balanced portfolio by increasing the proportion held in foreign currency assets. This restructuring involves a programme of gold sales through an auction process. The proceeds from the sales are being retained in the Reserves and invested in interest bearing foreign currency assets. During the financial year 1999-2000 approximately 125 tonnes of gold were sold and over the medium term it is intended to reduce the United Kingdom's gold holdings to around 300 tonnes.

6.2 Gilt Registration

The number of accounts on the register continues to fall by about 8% per annum. Some 95% of gilts by value are now held in dematerialised form within the Central Gilts system, managed until the middle of 2000 by the Bank's Central Gilts Office, and then integrated into CREST. However, over 90% of the individual accounts on the register continue to be held in certificated form, outside that service.

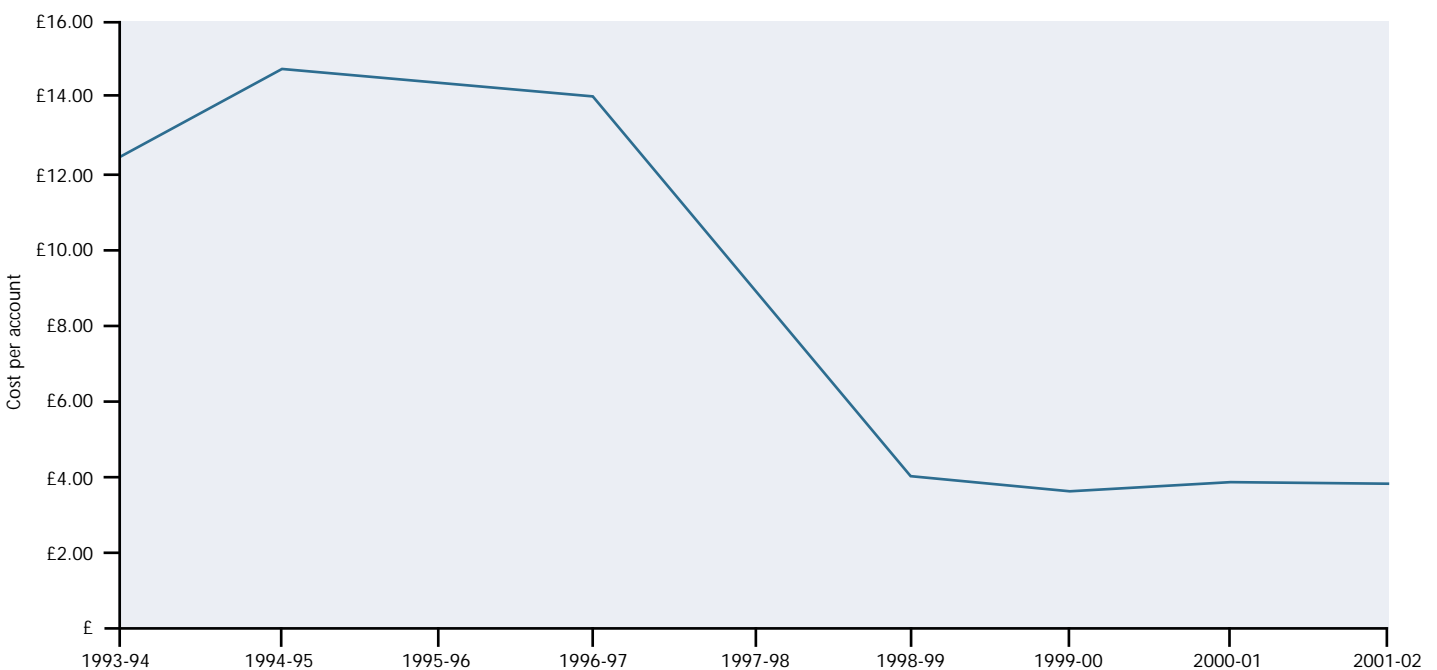
Work levels have remained relatively constant, despite the underlying fall in account numbers, but productivity gains have enabled the Department to reduce its running costs and to continue meeting its financial target of £4.30 per account. Staff numbers are expected to have fallen from 94 (October 1999) to 67 by the end of February 2001.

The department is facing a number of changes to its procedures and systems as a result of the planned transfer of gilts settlement from CGO to CREST in July 2000 and is currently developing and trialling the necessary amendments.

6.3 Bank Note Production and Distribution

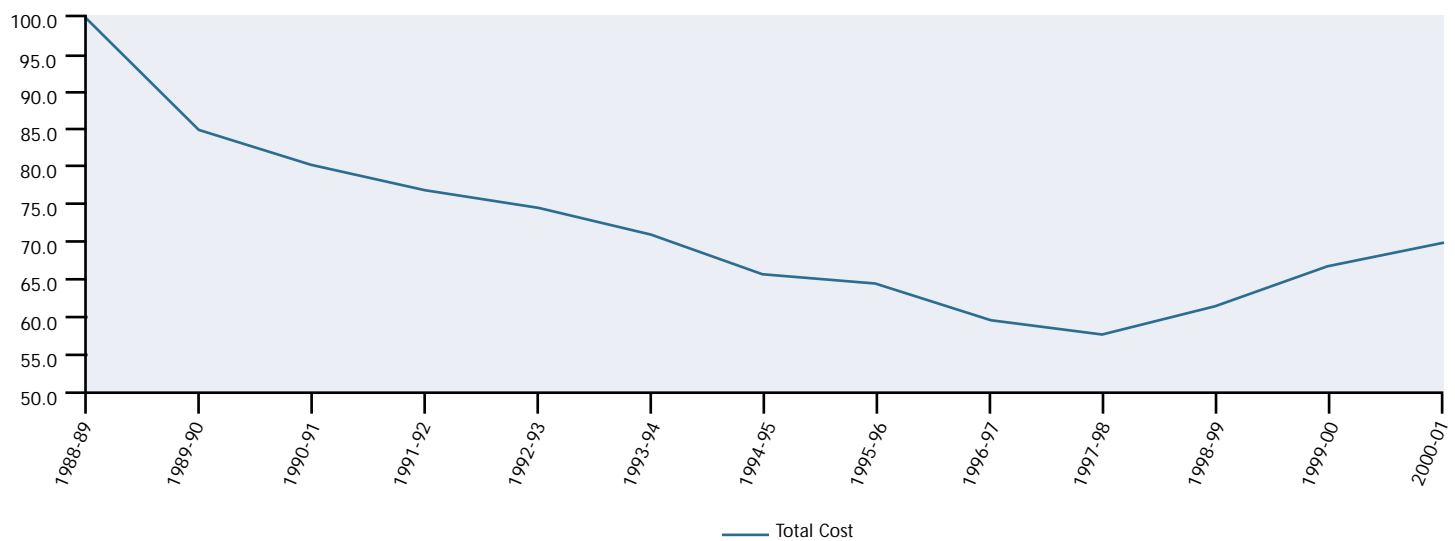
In mid-1999, the Bank issued a revised version of its £20 note. The new note featured several design changes and security enhancements. Large denomination symbols were introduced, specifically to help the partially sighted. The security enhancements, which took advantage of recent developments in printing and anti-counterfeiting technology, include a foil hologram, a fluorescent feature only visible under ultraviolet light, and microlettering, only readable under magnification.

Chart 6a Registrar's Department: Trends in unit cost of Gilt Registration



As a result of these developments, the overall cost of printing banknotes has increased, as shown in the chart 6b below.

Chart 6b Overall costs of printing banknotes



In early autumn 1999, the Bank introduced a “Special Millennium Arrangement”, whereby the major financial institutions involved in wholesale cash distribution were allowed to hold an extra £8.0 bn in banknotes as a contingency (much of it emanating from the Bank’s own reserves) to ensure there were sufficient banknotes available to meet demand by the public over the year end period. In the event, only £0.5 bn of this additional cash was required.

6.4 Public Appointments

The table 6a below sets out the appointments and re-appointments to the Court of Directors of the Bank of England in 1999. The process for making public appointments follows the recommendations of the Commissioner for Public Appointments.

Table 6a Appointments and Reappointments to the Court of the Bank of England

Date	Name	Appointment	Ends
Appointments and reappointments made prior to the introduction of the 1998 Bank of England Act			
6 August 1999	Sir Ian Gibson	Non-Executive Director	31 May 2002
6 August 1999	Kathleen O’Donovan	Non-Executive Director	31 May 2002
6 August 1999	Sir Neville Simms	Non-Executive Director	31 May 2002
6 August 1999	Chirs Allsopp	Non-Executive Director	31 May 2002
6 August 1999	Howard Davies	Non-Executive Director	31 May 2002

The term of office for Directors is normally three years but on this occasion, appointments/re-appointments were not formalised until August.

Parliamentary Bodies, Honours and Dignities

7.1 The Treasury’s programme contains provision for:

- four Parliamentary bodies (the Commonwealth Parliamentary Association, the British American Parliamentary Group, the Inter-Parliamentary Group and the British-Irish Inter-Parliamentary Body). These bodies aim to foster understanding between Members of Parliament and elected representatives of other countries.
- honours and dignities, covering the cost of salaries, insignia etc, for the Central Chancery of the Order of Knighthood; of annuities of UK civilian holders of the George Cross; and of some ceremonial expenses.



Chris Daykin CB
Government Actuary

Government Actuary's Department



Government Actuary's Department

8.1 Introduction

The Government Actuary's Department (GAD) is essentially an actuarial service provider. It advises on the financing of social security and pension schemes, population and other statistical studies, and on the supervision of insurance companies, friendly societies and pension schemes. GAD's principal customers are those government departments and public bodies which have central government policy responsibility for these matters, notably the Department of Social Security, HM Treasury and the Financial Services Authority but also a large number of other public sector bodies. GAD has no policy-making responsibilities of its own. It provides no services direct to members of the public, other than making available some demographic information, and has only very limited direct contact with members of the public although it does provide some service to the private sector. Its customers are essentially organisations, consisting mainly of government departments, public sector bodies and overseas governments.

8.2 Delivering Better Public Services

In setting out its spending plans for 1999-2002, the Government set new priorities for public spending with significant extra resources in key services such as education and health. The Government also stated its commitment to linking this extra investment to modernisation and reform to raise standards and improve the quality of public services. The White Paper, "Public Services for the Future: Modernisation, Reform, Accountability" (Cm 4181), December 1998 and its supplement published in March 1999 (Cm 4315) delivered this commitment by publishing for the first time Performance Service Agreement (PSA) measurable targets for the full range of the Government's objectives.

The White Paper, "Modernising Government", published in March 1999 is a statement of the Government's vision for reform and modernisation of the delivery of public services. These principles provide a means of achieving the results of the PSA targets.

8.3 Departmental Aim, Objectives, and PSA Targets

Aim

To provide independent, professional actuarial advice of the highest quality to clients principally in the public sector at a reasonable cost.

Objectives

GAD has three key objectives:

1. To provide the actuarial advice to government departments and other GAD clients in respect of employer-sponsored arrangements (particularly the main public service schemes) and other employee benefits.
2. To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision making in social security and pensions policy.
3. To provide the actuarial advice necessary for the regulation and supervision of financial institutions.

PSA Targets

GAD agreed a number of targets to be achieved within the three year Comprehensive Spending Review period. They can broadly be summarised into three categories:

- (a) external and internal quality control measures linked specifically to the objectives listed above and requiring external assessment from clients and internal assessment from the Government Actuary.
- (b) efficiency targets which have no specific links to GAD's objectives but are measures to reflect how well the department is performing.
- (c) efficiency measures decreed by central government that all government departments must adopt.

The quality control measures are:

- Agree by October of each year detailed work programmes and evaluation requirements as part of the Service Level Agreement (SLA) for client work. This measure applies to clients covered in all three objectives.
- Set up a Client Satisfaction Survey for clients covered in objective 1 (this covers the department's largest client base).

- The Government Actuary will formally introduce procedures to monitor the quality of advice produced by GAD and provide an annual assessment score from 1- below standard to 5-excellent.

GAD has successfully agreed work programmes with the supervisors of financial institutions (FSA) (objective 3). 50% of SLA's have been agreed with clients covered in objectives 1 and 2. The remainder have been issued to clients but we are still awaiting either their responses or formal agreement to our proposals. The nature and content of each SLA is tailored to the requirements of each of our clients and cannot be dictated by GAD.

Progress has been made in the development of a customer satisfaction survey. The design of the questionnaire took longer to complete than anticipated but this process has now been successfully concluded and questionnaires were issued in November. The department received responses from just under two thirds of those surveyed. The survey has now been completed and the results compiled.

Formal internal monitoring by the Government Actuary to ascertain the quality of high level advice produced by GAD is already in place. Formal monitoring only started part way through last year. The assessment score given by the Government Actuary to reports covering all work products monitored in 1998-99 relating to the three objectives was 4.4. Current procedures are being extended to cover a wider range of GAD outputs and to allow appropriately for the importance and profile of different types of outputs.

PSA efficiency targets that are not linked to specific targets are as follows:

- By 31st March 2000 to have implemented the Management of Business Performance system to enable the mean time overrun of cases to be monitored and reduced.
- By 31st March 2002 to have developed and introduced a competence based appraisal system.
- Reduce the amount of time written off as non chargeable before billing or through invoices not being paid by a target of 1% each year to achieve a 3% reduction by 31st March 2002.
- To increase the aggregate efficiency index for the department by 0.75% each year.

The following measures will also be reported as annual statistics and will feed into the formulae for producing the aggregate efficiency index.

- By 31st March 2002 achieve a reduction in overhead recovery rates of 3% (1% per year) in real terms over the 3 years.
- Reduce the average chargeout rate deflated by the increase in GDP by 3% (1% per year) over the 3 years.
- By 31st March 2002 to have increased the average number of projects completed per member of staff by 1.5% each year.
- To maintain the current level of proportions of chargeable time to conditioned hours worked by staff at around 80%.

The proportion of chargeable time is closely monitored since it is essential that it be maintained at a high level to ensure that the department is efficient and meets its income targets. However it is essential not to lose sight of the importance of non-chargeable time, which includes time spent on activities such as management, training, the Investors in People initiative, systems development and research. Table 8a below shows the outturn for 1998-99, with the outturn of the previous year for comparison. The figures relate to all actuarial staff (other than the Government Actuary) and all support staff attached to the operating divisions. Chargeable hours include time spent on specified GAD core work such as demographic projections as well as on work for government departments and other clients.

Table 8a Chargeable Hours as a Proportion of Time Worked

	1998-99	1997-98
Managing Actuaries	.80	.83
Other Actuaries	.87	.88
Actuarial Trainees	.68	.68
Support Staff	.65	.68
All Staff	.75	.78

The Management of Business Performance system has been set up, but improvements to it will be an on-going process. New prototype software has had to be developed to meet the requirements of monitoring the mean time overrun of cases and the average number of projects completed by staff. The new software has only just reached the implementation stage and therefore neither a baseline figure nor progress can as yet be reported on the mean time overrun of cases measure. The new software will also provide our source data for evaluating the average number of projects completed by staff. However, a base figure of 11 projects per person has been agreed.

GAD's new appraisal system is now fully in operation. A review of the system is currently under way to address any problems that have been identified and to proposed further developments and improvements.

The aggregate efficiency index target will be derived from the annual statistics listed above. This target will only be achieved if a combination of the annual statistics targets is met.

PSA targets, which are to be included, by all government department targets are as follows:

- Better Quality Services initiative - this involves keeping under regular review all support services and activities.
- To contribute to the reduction of public sector sickness rates by 20% by 2001 and 30% by 2003.
- Submission of a Procurement Improvement Plan.
- Prompt payment of bills.

GAD agreed in its "Better Quality Services" presentation to the Economic Secretary to the Treasury to review its actuarial services as part of the 2000 Spending Review. This proposal was accepted and accounts for 90% of the department's services. GAD is continuing to review all its other support services and activities.

GAD has accepted the sickness targets agreed with the Cabinet Office and is actively looking at measures to reduce levels of sickness absence.

GAD has now identified a number of recommendations to improve procurement efficiency which are appropriate and cost effective for adoption by a small department with a very limited spending capacity.

GAD's policy is to pay all bills in accordance with contractual conditions, or within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later, where no contractual conditions exist. GAD is fully compliant with both the CBI Prompt Payment Code and the British Standard for Achieving Good Payment Performance in Commercial Transactions. GAD already has a good track record for making prompt payment and will continue to seek improvements where possible whilst acknowledging that achieving a 100% target all the time is not realistic. The department's payment performance in 1998-99 is shown in the Table 8b below:

Table 8b Performance in Paying Bills

Total invoices Received	1812
Average Clearance Time	22 days
Total Taking 30 days or less from	1801
Invoices in dispute	Nil
<hr/>	
Percentage cleared within 30 days	99.4%

8.4 Modernising Government Action Plans

Due to the nature, role and small size of the department, GAD will only be able to make a limited contribution to the Modernising Government Agenda. Nevertheless, GAD will do what it can to assist its client departments to achieve the Government's five white paper commitments and will implement such actions as are appropriate.

Policy Making

GAD is a provider of actuarial advice and has no government policy-making responsibilities of its own. However, it does make a significant contribution to the development of policy in some areas where it provides consultancy advice to other departments, e.g. to DSS on social security and pensions policy matters, to HM Treasury on occupational pension policy for the public sector and to the Financial Services Authority (FSA) on policy relating to the regulation of insurance companies.

Responsive Public Services

GAD does not provide services directly to members of the public, apart from making available certain demographic material and other publications. However GAD is committed to the Government's principles for responsive public services in its dealings with customers and in its limited contact with members of the public. GAD has responded to public demand for rapid access to demographic information by publishing the latest population projections on our web-site on the day that they were released. As previously mentioned in its PSA, the department has completed its first customer satisfaction survey and is engaged on an on-going basis, agreeing Service Level Agreements with clients which are defined to meet their needs. GAD's activities in the private sector is limited and mainly involves giving advice on the pensions aspects of contracting out services to private sector suppliers. The department also offers a service to potential private sector contractors by providing a "passport certificate" indicating broad equivalence to the public service pension scheme of pension arrangements to be offered to transferring employees in respect of their future service. GAD also responds to requests from a number of governments of overseas countries for advice in all our core areas of expertise, but especially relating to social security, pensions matters and insurance supervision.

Quality Public Services

GAD's PSA is monitored by H M Treasury to ensure that the department meets its performance measures and targets. These measures and targets are incorporated into the department's business plan and cascaded down into performance agreements for individual members of staff. GAD will review both the actuarial service it provides and also the services it buys in as part of the Government's "Better Quality Services" (BQS) programme. With regard to market testing, GAD's actuarial services are already subject to competitive market testing by our

principal departmental and public sector clients. The department has already contracted out the majority of its support specialist services such as Internal Audit, recruitment of professional grades, training, printing and design of publications, IT management consultancy, payroll etc. and some actuarial work. The department is continually looking at ways to improve its efficiency and is currently in the process of contracting out the residual element of its domestic staff pensions administration work.

Information Age Government

GAD continues to support business links and data sharing between the department and other government departments. The establishment of a GAD website was agreed and implemented in October 1999, to facilitate the publication of the new population projections. It has also been agreed to provide all staff with desktop Internet access via a commercial provider, in line with GAD's IT Strategy Document. Connection to the Government Secure Intranet remains an objective for the financial year 2001 - 2002.

GAD will play its part in helping to meet the Government's new targets for electronic delivery of government services. In addition to the initiatives mentioned above, GAD will encourage clients to use Electronic Mail facilities to communicate with the department. Most GAD staff are highly computer literate and able to deliver services electronically to any client who wishes to receive communications in that way. GAD has also recently put into practice procedures for using the Government Procurement Card for low value purchases of computer and office supplies.

Public Service

GAD already meets the requirement of bringing in and bringing on talent. The nature of GAD's operation has meant that we already have a high level of interchange with the private sector of qualified actuaries who have enjoyed a career in the private sector prior to joining GAD. Also a very high proportion of staff who leave GAD move to posts in the private sector. GAD has for many years had in place a comprehensive training policy to develop trainee actuaries but this policy has now been extensively expanded to include the development of all GAD staff. GAD already has in place core competencies for staff at all levels, and an Equal Opportunities Policy. The department operates a performance pay system, but, in the light of expected new guidelines from the Cabinet Office, will further develop its system to reward high performance at both the individual and team level.

A formal assessment of recognition for Investors in People (IiP) was carried out in November 1999. The outcome resulted in GAD being awarded full IiP recognition with effect from January 2000. As part of the preparation for IiP assessment during the year a number of focus groups were established to

review and make recommendations on key areas of staff and management development. Investment in training and development has resulted in significant benefits to the department, including a better trained and equipped workforce, updated professional skills, improved IT skills and enhanced personal skills and productivity. Performance appraisal relating to achievement of the business plan has focussed the requirement for enhanced skills to ensure an output-based future training and development strategy.

Investment

8.5 Departmental Investment Strategy (DIS)

Annual capital expenditure within GAD is expected to remain constant at just over £0.2m. This level sustains a rolling programme of upgrading and replacement of IT equipment and office furniture enabling the department to deliver its objectives in the most efficient manner. This small asset base is controlled by use of fixed asset register, and valuations, useful lives, and any disposals are recorded in accordance with Resource Accounting requirements. Both annual and longer-term plans have been formulated to ensure that maximum efficiency is achieved within the very limited scope of capital spending.

Private Finance or Public/Private Partnerships

No opportunities for the use of Public Private Partnerships have been identified to date but this will be given consideration if an opportunity should arise. Under the aegis of the Better Quality Services indicator, GAD already contracts many of its support services to the private sector, and will continue to work closely with the private sector in this respect.

Running Costs, Staffing and Capital

Resources

Departmental Expenditure Limit	1998-1999 £000's	1999-2000 £000's	2000-2001 £000's	2001-2002 £000's
Salaries	4,784	5,420	5,556	5,695
GAE	2,001	2,181	2,235	2,292
	-----	-----	-----	-----
	6,785	7,601	7,791	7,987
less receipts	6,486	7,178	7,358	7,542
	-----	-----	-----	-----
Net Running Costs	299	423	433	445
Capital	200	213	219	224
	-----	-----	-----	-----
Net Total	499	636	652	669
Annually Managed Expenditure	Nil	Nil	Nil	Nil

Expenditure by GAD in cash terms for the two years 2000-2002 shown above will be attributable to Class XVI, Vote 13. Gross running costs are anticipated to rise from £7.8m to £8m over the two-year period. Recoverable fee income over the same period is expected to be in the region of £7.3m in 2000 -2001 to £7.5m in 2001-2002. Any increase in gross running costs throughout this period will be offset by a corresponding increase in receipts

Planned voted expenditure in respect of “core” costs and capital is expected to remain constant at £0.7m over the next two years.

8.6 Appropriations in Aid

The revenue from charging for the provision of actuarial advice is credited as appropriations in aid. Charging for advice given to other government departments constituted 78% of receipts during 1998 - 1999, the balance of 18% and 4% coming from wider public sector and overseas clients respectively. Charges are set at a level just sufficient to allow full recovery of costs year-on-year, with the exception of the core work.

8.7 Consolidated Fund Extra Receipts (Cfer's)

In 1998 - 1999 the department surrendered £1k as a Cfer, this representing the receipt of income which did not fall within the Estimates categories for appropriations in aid.

8.8 Recruitment, Equal Opportunities

All appropriate systems, records and controls are in place to ensure that any recruitment which takes place within GAD is carried out on the basis of fair and open competition and selection on merit, and in accordance with the Recruitment Code laid down by the Civil Service Commissioners. The department contracts out to Capita (RAS) its recruitment of qualified and graduate trainee actuaries, whilst the majority of non-actuarial posts are filled by a combination of internal promotion, advertising through job centres and interdepartmental trawl notices. Since relocation (see below) the department now has the necessary facilities to allow wheelchair-bound disabled people the same opportunity to apply for posts in GAD.

The actuarial recruitment market for qualified and part-qualified actuaries remains extremely difficult, with commercial actuarial consultancies able to offer high salary rates. Recruitment exercises have met with patchy success due to GAD's inability to offer sufficiently competitive rates of remuneration. 1998-99 saw a high turnover in staff. A total of 33 staff were recruited in 1998-99 to replace staff who left the department and to meet the sustained high level of demand for GAD's actuarial advice in the pensions field. Table 8c shows full time equivalent staffing levels as at 31st December 1999.

Table 8c Full Time Equivalent Staffing Level; as at 31.12.99

	Male	Female
Actuaries	32.9	4.7
Trainee Actuaries	15.0	8.0
Unified Grades	2.0	-
Executive Grades	15.0	5.0
Administrative Grades	9.0	9.0
Support Grade	1.0	-
Total	74.9	26.7

Senior Civil Service Salaries

Senior actuarial staff are not part of the Senior Civil Service (SCS) and, whilst their salaries are not decided by the Senior Staff Review Body (SSRB), their salary increases are informed by the increases awarded to the SCS by the SSRB. There are twelve such staff at this level, whose salary as at 1st April 1999 fell into bands as shown in the table 8d below:

Table 8d

Band	Numbers in Band
£75,000 - £79,999	3
£80,000 - £84,999	2
£85,000 - £89,999	2
£90,000 - £94,999	1
£95,000 - £99,999	-
£100,000 - £104,999	1
£105,000 - £109,999	1
£110,000 - £114,999	1
£115,000 - £119,999	-
£120,000 - £124,999	-
£125,000- £129,000	1
£130,000- £134,000	-

8.9 Location

GAD recently relocated to better more modern accommodation, still in Central London, which offered access and facilities for the disabled and improved travel times between our major clients and ourselves. GAD is now a minor occupier of New Kings Beam House; the London headquarters building of H M Customs & Excise located near Blackfriars Bridge. Our expenditure remains allocated in the South East Planning Region.

8.10 Environment

GAD continues to adopt wherever possible environmentally friendly practices. The relocation has given the department the opportunity to participate in existing recycling facilities of paper, aluminium cans and printing materials. The lighting is energy efficient throughout the building, and toilet facilities are sensor activated. The department closely reviews its use of paper and keeps waste to a minimum by encouraging double sided printing and copying.

8.11 Bibliography

Further information on the department is contained in the following publications, which can be obtained from GAD.

- Annual Report 1998-99
- Corporate Brochure



Ian Peattie
Director

National Investment and Loans Office



National Investment and Loans Office

Aims, Objectives and Responsibilities

The National Investment and Loans Office (NILO) is a very small department (33 staff currently in post) and as such it does not have a Public Service Agreement or associated targets. NILO does not make policy nor is it responsible for any regulatory activity. NILO is a provider of financial services to public sector customers rather than to the general public or to business. Its operations and outputs are carried out through its three statutory operating arms: the National Debt Office (NDO), the Public Works Loan Board (PWLB) and the Office of HM Paymaster General (OPG).

9.1 NILO

The common overall aim of the statutory bodies, set out in NILO's Output and Performance Analysis (OPA) is '*To contribute to securing high quality public services through the delivery of financial services to government and other public sector customers*'. NILO's internal objective is to provide the NDO, PWLB and OPG with the resources to enable them to carry out their functions, to recover all expenses incurred by way of fees and management charges, where statutes permit, and to achieve a continuing reduction in costs in real terms. This objective is on target to be met during 1999-00.

9.2 NDO

Currently the NDO actively manages 12 public Funds with a total asset value of over £23bn. Funds managed include the National Insurance Fund, the National Lottery Distribution Fund, the Court Funds Investment Account and the National Savings Bank Fund. The service to be delivered to clients is set out in Memoranda of Agreement. NDO's OPA objective is '*to safeguard public funds by providing an investment management service*'. Its targets are to maintain asset values to cover the liabilities to client Funds, to meet the clients' cash requirements and to achieve full investment of funds deposited. To date all targets have been fully met during 1999-00.

9.3 PWLB

The PWLB is an independent and unpaid statutory body, consisting of twelve Commissioners appointed by the Crown. Its main function is to make loans, from central government funds, primarily to local authorities and to collect the

repayments. Its responsibilities include ensuring that loans are made correctly and that there is no loss to the Exchequer. PWLB's OPA objective is '*to reduce public expenditure by providing a lending service*'. Its OPA targets are to make savings for local authorities, to provide the majority of local authorities borrowing needs and to make available loans not provided elsewhere. Loans are made at rates close to but just above the cost of Government Borrowing - this represents a saving of at least ¼ % compared with the rates available in the money market. Fees charged by the PWLB are typically about only 15% of the equivalent fees charged in the market and the period for repayment of PWLB loans currently ranges up to 25 years whereas the market rarely makes loans for more than 10 years.

9.4 OPG

OPG is effectively the Government's internal clearing bank. It is responsible for safeguarding funds belonging to some 750 Departments and other public bodies by holding them in the Paymaster General's accounts at the Bank of England, providing market sensitive information to HM Treasury on flows of payments and receipts required for controlling public expenditure and providing the full range of banking services to its customers through Service Level Agreements. Provision of banking services encourages departments and other public bodies to retain funds within the Exchequer Pyramid where OPG balances are typically between £10bn and £30bn during the year. OPG carries out some 33 million payment transactions (including receipts) each year on behalf of its customers worth around £700bn per year.

OPG's OPA objective is '*to safeguard public funds by providing a banking service*'. Its OPA targets are to maintain the number of its customers, to increase value for money and to increase the range and use of its facilities. OPG's account maintenance, transaction processing and electronic banking activities are carried out by out sourced contractors or the Bank of England. OPG is responsible for managing these supply arrangements and is itself responsible for the supply of banking services and information to its customers, including HM Treasury, on repayment terms through Service Level Agreements. In 1999-00 OPG has again held its prices at the same level as in 1996-97, giving a real terms decrease of some 7.5%, an average of some 2.5% per year.

OPG continues to introduce new or improved banking services - in 1999-00 it has:

- introduced a new version of its electronic banking service which gives increased functionality and allows customers to reduce their banking costs;
- enhanced its banking system which allows customers to hold balances and make transactions in euros; and
- introduced a merchant acquiring service which allows its customers to accept payments by credit or debit card.

9.5 Running costs, staffing and capital

Running costs and staffing

Tables 9a and 9b show the running costs and staffing resources allocated to NILO. Expenditure in 1999-00 will fall on Class XVI Vote 10 and is entirely for salaries and other running costs of the department. This expenditure is largely offset by income from PWLB fees on loan advances, charges by NDO in respect of the funds it manages and fees from OPG customers. All of NILO's expenditure is allocated to the South East Planning region and represents voted spending within the control total.

Table 9a Running Costs (£million)

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Estimated Outturn	2000-01 Plans	2001-02 Plans
NILO running costs gross (of which paybill)	1.6 (1.1)	1.6 (1.1)	1.6 (1.1)	1.5 (1.1)	1.5 (1.1)	1.6 -	1.6 -	1.7 -
NILO receipts	1.4	1.4	1.4	1.3	1.3	1.4	1.4	1.5
Net cost	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Table 9b: Staffing Table

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Estimated Outturn	2000-01 Plans	2001-02 Plans
	36.0	34.7	32.4	36.8	36.0	33.8	33.0	33.0

NILO has only one member of the Senior Civil Service who is in the pay band £60,000-£64,999.

Table 9c: Breakdown of forecast outturn for 1999-00 (£million)

Direct Expenditure		Grants and Transfers				Gross Total	Appropriations in Aid	Net Total
Running Costs	Other Current	Capital	Current	Capital				
1.5	4.3	-	-	-	5.8	5.5	0.3	

Table 9d: Forecast Appropriations in Aid (£ million)

	1999 -00	2000-01	2001-02
	5.5	5.6	5.7

Table 9e: Detailed Analysis of Consolidated Fund Extra Receipts (£ million)

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Estimated Outturn	2000-01 Plans	2001-02 Plans
I	0.6	1.0	1.1	0.5	-	-	-	-
II	0.2	0.2	0.1	0.3	0.1	-	-	-
Total	0.8	1.2	1.2	0.8	0.1	-	-	-

I Receipts of classes authorised to be used as appropriations in aid (almost entirely surplus fees for the advance of loans by the PWLB).
 II Receipts of other classes (almost entirely bank interest).

9.6 Capital Assets

Capital assets consist of computer systems, software licenses, personal computers and general office furniture currently valued at approximately £162,500.

9.7 Information technology:

Electronic government

NILO already significantly exceeds the target set by the Prime Minister for 25% of services to be available electronically by 2002.

9.8 Connection to the Government Secure Intranet

NILO has explored the scope and potential benefits to its customers of being connected to the GSI but has concluded that, for the present, the high cost outweighs the benefits; this situation will be kept under review. Future versions of the electronic banking system operated by OPG's outsourced contractor are expected to be based on a secure Intranet, replacing the current electronic mailbox system.

9.9 Management in the Department

Performance in Paying Bills

NILO is complying with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS7890). To date during 1999-00 100% of the invoices

received have been paid in accordance with the standard set out in BS7890. The Department's policy is to pay bills in line with contract conditions or within 10 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later, where no such conditions exist.

9.10 Environmental Policies

NILO has, for a number of years, operated schemes for the recycling of waste materials and is an active member of a working group in HM Treasury to consider and adopt environmental initiatives. The Department's 'green' contact is Brian Toward who can be contacted on 020 7270 3861.

9.11 Equal Opportunities

NILO is an equal opportunities employer. Policies are in place to guard against discrimination on grounds of gender, marital status, race, colour, nationality, ethnic origin, disability, religion, sexual orientation, age or background and which aim to ensure that there are no unfair or unlawful discriminatory barriers to employment or advancement in the Department.

The Cabinet Office is responsible for developing, formulating and promulgating equal opportunities policies for the Civil Service as a whole, but operational responsibility lies with NILO. The Equal Opportunities Officer in NILO is responsible for developing internal policies and for acting as liaison officer with the Cabinet Office. The Management Team and individual line managers are responsible for ensuring that all staff for whom they are responsible are aware of NILO's equal opportunities policies.

9.12 Policy on employment of disabled persons

As a very small department with low staff turnover and consequently no regular recruitment it is not practicable to set quotas or targets for employing disabled persons.

9.13 Investors in People

NILO is committed to gaining Investors in People accreditation and during 1999-00 much work was carried out to put in place systems to ensure that a culture of continuous improvement is created within the Department.

9.14 Recruitment

Due to NILO's very small size there is no regular recruitment. A recruitment system audit was carried out in 1998 as a result of which a recruitment operational checklist was developed for future use.

9.15 Public Appointments

The Public Works Loan Commissioners holding office during 1999-00 were :-

Original Appointment Began	Current Appointment Ends		Original Appointment Began	Current Appointment Ends
1994	2002	Chairman A. D. Loehnis, CMG Director, St James's Place Capital plc; Former Director, SG Warburg Group plc; Former Executive Director, Bank of England	1996	2000
1978	2002	Deputy Chairman Miss V. J. Di Palma, OBE Director, Mobile Training Limite President, Chartered Association of Certified Accountants 1980-81.	1996	2000
1995	2003	Dame Sheila Masters, DBE Partner, KPMG, Non-Executive Director, Bank of England; Vice President, Institute of Chartered Accountants in England and Wales.	1996	2001
1996	2000	Mrs R. V. Hale Director, Rita Hale & Associates Ltd; Former Head of Local Government Division; Chartered Institute of Public Finance and Accountancy.	1997	2001
			1997	2001
			1997	2003
			1998	2002
			1999	2003

Original Appointment Began

Current Appointment Ends

1996 **J. A. Parkes, CBE** 2000
Former Chief Executive,
Humberside County Council;
President, The Society of County Treasurers
1987-88

1996 **R. Burton** 2000
Former City Treasurer,
Birmingham City Council;
President, Society of Metropolitan Treasurers
1996-97.

1996 **J. Andrews** 2001
Director of Finance,
Glasgow City Council.

1997 **B. M. Tanner, CBE** 2001
Former Chief Executive,
Somerset County Council;
President, Society of County Treasurers
1989-90.

1997 **T. W. Fellows** 2001
Former Deputy Chairman,
Gerrard & National Holdings plc;
Chairman, London Discount Market Association
1995-97.

1997 **Mrs R. Terry** 2003
Director,
HACAS Exchequer Services Limited;
Former Partner, Touche Ross & Co.

1998 **D.W. Midley** 2002
Chairman, North East
Chamber of Commerce;
Former Chief Executive,
Newcastle Building Society.

1999 **L. M. Nippers** 2003
Director of Finance and Central Services,
Newport County Borough Council;
Chairman, Society of Welsh Treasurers
1997-98

9.16 Bibliography

Detailed background and statistical information on the PWLB can be found in the Public Works Loan Board Annual Report for 1998-99.



Peter Bateau
Chief Executive

National Savings



National Savings

National Savings operates in the competitive retail savings market. Its primary role is to raise cost effective funds for the Government. The funding task for National Savings is set a year at a time in the form of a remit agreed with the Treasury. The Economic Secretary to the Treasury has ministerial responsibility for National Savings which became an Executive Agency of the Chancellor of the Exchequer on 1 July 1996.

10.1 Delivering Better Public Services: Progress

The challenging conditions in the retail savings market continued during 1999. Nevertheless, for 1999-2000, National Savings is on track to deliver a net contribution to the government's cash requirement of -£0.9 billion in line with the assumption in the November pre-Budget Report. We expect gross sales and receipts, including accrued interest, to total £10.1 billion, bringing the total invested in National Savings by customers to £62.8 billion. The average costs of National Savings products for the year are expected to fall within a reasonable range of the yield on equivalent gilts.

The culmination of 2 years work was the signing in January 1999 of a 10 year contract with Siemens Business Services (SBS) to run our entire operational services business. The contract commenced on 1 April 1999. This is a key element in National Savings drive to modernise the delivery of its service to its many customers. The benefits include a substantial reduction in our annual running costs over the life of the contract; the ability to bring products to market faster; more sophisticated customer relationship management; additional investment in the operations business, enhanced service delivery for customers and better prospects for the transferred staff.

Building on these new arrangements, 1999-2000 has seen National Savings continue to extend the product choice our customers have when dealing with us. During 1999-2000 new product developments include a cash-mini ISA introduced in April 1999, meeting CAT standards and providing a straightforward product catering for a variety of savers' needs; a 2 year Pensioners Bond introduced in June 1999, to support the Chancellor's budget pledge of improved choice for pensioners; 2 year savings certificates and a new Fixed Rate Savings Bond both introduced in October 1999.

10.2 Departmental objectives and PSA targets

National Savings aim is:

- to add value by helping to reduce the cost to the taxpayer of government borrowing and by supporting government savings policies.

The objectives are:

- to market government debt to retail investors so as to help to minimise the combined cost and risk to the National Debt and to contribute to the Government's funding needs.
- to promote government savings policies amongst personal investors.

In meeting these objectives the agency will operate cost effectively and in a competitive and commercial manner that does not distort the savings market; and in a manner that benefits both Government and the retail saver - now and in the future.

PSA target 1 : the average cost of NS products should lie within a reasonable range of the yield on equivalent gilts

The overall cost of National Savings products for the year up to 1 December 1999 was slightly less than the cost of equivalent gilts, creating value for the taxpayer by helping the Treasury in its task of minimising the cost of debt interest.

PSA target 2: preparing and operating a mini cash Individual Savings Account that meets the government's CAT standards

National Savings introduced a cash-mini ISA from April 1999, meeting the CAT standards. Access through the Post Office was provided from May 1999, and a TESSA-only ISA was available from July 1999. Up to 1 December 1999 all ISA transactions are expected to meet the CAT standards.

Departmental Operations and PSA productivity targets.

PSA target 3: accuracy and timeliness of customer transactions

We measure service delivery performance through a series of key performance indicators (KPIs), which include the accuracy and timeliness of customer transactions. The overarching service requirements and targets are reflected in the contractual commitments to service delivery that we have agreed with our primary suppliers (SBS and Post Office Counters Limited (POCL)).

The time taken to deal with sales, payments and aftersales transactions for all NS products is measured against a target of 97%. From the start of the year to 1 December 1999 consistent results have been achieved: Sales: 99.8%; Payments 99.8%; and Aftersales 99.8%.

The accuracy of sales and payment transactions for all NS products is measured against a target of 97%. From the start of the year to 1 December 1999 consistent results have been achieved. Sales 99.3% and Payments 99.1%.

PSA target 4: to improve operational efficiency

The Agency's efficiency target for 1998-99 was 3%, the achievement was 3.4%.

Following the outsourcing of National Savings' operations to Siemens Business Services, National Savings was set a ministerial target to establish and implement a productivity measure to monitor cost reductions. This is expected to be implemented by 31 March 2000.

PSA targets 5 and 6: to improve accuracy of customer transactions and reduce transaction times over three years

We measure performance through a series of key performance indicators (KPIs), and we have sought and agreed commitments from our key suppliers that the service standards they deliver to our customers should improve significantly over time.

The scope and appropriateness of the KPIs within the SBS contract will be reviewed in 2000 in light of experience, with agreed improvements scheduled for August 2000.

10.3 Modernising Government action plan

National Savings competes directly with the private sector in the personal savings market. Whether viewed as a major player in the savings market or as a public service, we cannot succeed unless we provide good service and value to both savers and taxpayers. We have around 10% of the low risk savings market, but savers do not have to choose National Savings. We account for around a fifth of the national debt, but our primary

justification is whether we can offer a cost-effective alternative to gilts in funding government debt.

10.4 Policy Making

National Savings' primary purpose is to implement policies on debt management and saving. Nonetheless, it must develop its own policies in order to set a strategic direction for competing effectively in a fast changing commercial market for personal savings.

Up to and including 1998-99, National Savings was set a funding requirement at the start of each financial year, and only for that financial year. National Savings and the Treasury agreed a medium term (3 year) funding framework from April 1999. This new funding framework enables National Savings to plan more effectively over the medium term, and better assist the Treasury with its objective of reducing debt interest costs.

The development of the business is dependent upon our understanding of our customers and the market. Research underpins all product and channel development and a continuous tracking study measures the success of marketing and advertising.

In addition we are building relationships with government retail debt organisations in other countries to share experience and develop best practice, with the next meeting set for May 2000.

10.5 Responsive Public Services

National Savings has held the Charter Mark since 1997.

National Savings' strategy involves product development and extending the channels through which National Savings' customers can deal with us to meet the needs of customers. Recent product developments include a mini-cash ISA introduced in April 1999, meeting CAT standards; a 2 year Pensioners Bond introduced in June 1999; 2 year savings certificates and a new Fixed Rate Savings Bond both introduced in October 1999.

Customer satisfaction is critical to National Savings, whether viewed as a business or as a public service. In addition to KPIs for customer service, customer satisfaction is continuously surveyed in order to measure and improve performance. It is currently our intention that from March 2000 we will introduce a new customer satisfaction measure against which we will report progress annually.

10.6 Quality Public Services

National Savings manages its dealing with its customers through two key partnerships with SBS and POCL. These partnerships illustrate two ways in which the business and the service we provide are being developed.

Starting on 1 April 1999, Siemens Business Services (SBS) took over responsibility for delivering all back office and direct sales services for National Savings. Benchmarks and Key Performance Indicators (KPIs) contained in the SBS contract are designed to secure continuous improvement in customer service in line with best financial services practice. Further developments include: a review in 2000 of the scope and appropriateness of KPIs in the light of experience with further performance improvements, measured by KPIs, due from August 2000.

A second important supplier relationship is with POCL who act as a key outlet to customers for many of National Savings products. The current one year contract with POCL has improved the following service delivery targets:

- a range of new KPIs focused on the areas where POCL failure impacts most significantly on customer service;
- agreement on an initial group of processes and activities to examine for potential efficiency improvements;
- agreement to the principles of benchmarking the POCL service.

Objectives for the next contract from July 2000 are to continue to increase the value of the service POCL provides both to National Savings and to our customers and which includes commitments to improve commercial practice and develop the relationship in ways which incentivise value creation, service and cost competitiveness.

10.7 Information Age Government

National Savings will offer a range of channels to customers including various electronic means. The many customers who prefer to deal face to face for carrying out transactions will continue to have the option to visit one of over 19,000 Post Offices around the country.

National Savings is making good progress towards the Prime Minister's target for 25% of services to be available electronically by 2002.

For two of National Savings popular products, Premium Bonds and Pensioners Bonds, personal advice on both products is available through a call centre and from the National Savings web site. Pensioners Bond dividends are payable direct to bank accounts. National Savings is expecting to make the majority of the processes for both products electronic by the target date.

Any new financial products brought to the market will be electronically enabled, as is the case with the National Savings Fixed Rate Savings Bond, launched on 29 October 1999.

Planned developments include: extending telephone sales services across more of our products; extending electronic funds transfer facilities across more of our products; and developing internet e-commerce facilities.

10.8 Public Service

National Savings confirmed as an IIP accredited organisation on 22 October 1999.

A key challenge now for National Savings is to ensure that we have the competencies, skills and performance culture which match the moves within the Civil Service to modernise and aspire to the stretching goal of being the best performer in every aspect of our work.

A key element to this has been the development of our employment "Deal". This is an expression of what our people can expect of National Savings as an employer and what is expected of them to help deliver business success. It covers all aspects of behaviour and activity in their work environment, defines practical ways for all parties to live our values and is fully consistent with the new Vision and Values of the wider Civil Service. The "Deal" has been developed through a wide consultation process and was rolled out within National Savings in February 2000. Progress on cultural change will be measured through staff attitude surveys and individual competency development.

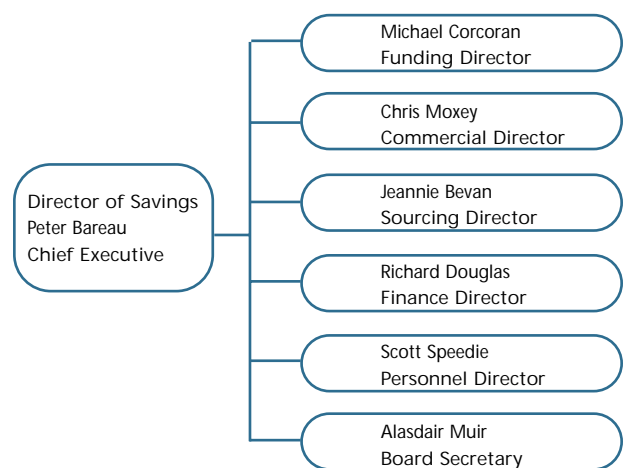
To support this a new competency framework, reward and appraisal system is to be put in place starting mid 2000 for use in April 2001.

10.9 Senior Management

The present senior management structure is shown in the chart below:

(as at 1 December 1999)

Chart 10a Senior Management Structure



10.10 Running Costs Staffing and Capital

The running cost provision over the planning period (2000-01 and 2001-02) remains largely unchanged apart from some minor changes. The level of receipts changes substantially from 1998-99 to 1999-00. The main factor is the transfer of National Savings Operations to the Private Sector Partner following which rent receipts are received for the use of the accommodation.

Capital provisions stays constant throughout the planning period.

Table 10a Running Costs (£ million)

	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 outturn	1998-99 outturn	1999-00 estimated outturn	2000-01 plans	2001-02 plans
Running Costs Gross	194.0	190.5	178.5	175.1	171.0	179.0	179.2	179.3
Related Receipts	-1.3	-2.4	-2.8	-2.9	-0.9	-4.7	-4.9	-5.0
Net Cost	192.7	188.1	175.7	172.2	170.1	174.3	174.3	174.3
Civil Service Paybill included in gross running costs	90	85	80	75	75			

Table 10b Staffing

	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 outturn	1998-99 outturn	1999-00 original plans	1999-00 estimated outturn	2000-01 plans	2001-02 plans
Permanent Staff	5,586	5,034	4,545	4,186	4,180	120	114	132	133
Overtime	61	66	75	55	88	4	2	2	2
Casuals	182	70	53	65	65	5	7	8	8
Total Staffing	5,829	5,170	4,673	4,306	4,333	129	123	142	143

The figures in these tables for running costs form part of the consolidated tables for the Chancellor's Departments in the Annex to this report.

Table 10c Breakdown of forecast outturn for 1999-2000 by individual function

	Direct expenditure			Grants and transfers		Gross Total	£000s	
	Running Costs	Other Current	Capital	Current	Capital		Appropriations	Net Total in Aid
Central government's own expenditure	179,041	1,933	423	-	-	177,531	4,716	172,815
Other expenditure not included in the control total	45,604					45,604	39,915	5,689

The Expenditure (£45.6million) and Appropriations in Aid (£39.9 million) are the amounts that are necessary for the Agency to clear its outstanding balances in its product ledgers which arose from historical discrepancies which was the subject of PAC hearings in 1998 and 1999.

Table 10d Appropriations in Aid (2000-01) £000s

Capital Receipts	123
Receipts from other Government departments for ADP services	20
Other Receipts	68
Rents from Minor Occupiers	33
VAT Receipt	398
Rent Receipts	4,196
Total	4,838

Table 10e Regional Analysis of Expenditure and Manpower

Region	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 outturn	1998-99 outturn	1999-00 estimated outturn	2000-01 plans	2001-02 plans
South East: Expenditure (£m)	84	84	81	79	78	77	77	77
Manpower	291	281	260	242	131	102	120	121
North West: Expenditure (£m)	33	32	29	28	28	27	28	28
Manpower	1,508	1,372	1,283	1,150	1,141	4	4	4
North: Expenditure (£m)	32	31	26	26	26	26	26	26
Manpower	1,529	1,260	1,170	1,124	1,118	4	4	4
Total England Expenditure (£m)	149	147	136	133	132	130	131	131
Manpower	3,328	2,913	2,713	2,516	2,390	110	128	129
Scotland Expenditure (£m)	48	47	43	42	43	41	42	42
Manpower	2,258	2,121	1,832	1,670	1,659	4	4	4
Total UK Expenditure (£m)	197	194	179	175	175	171	173	173
Manpower	5,586	5,034	4,545	4,186	4,049	114	132	133

From 1999-2000 National Savings Operational locations will be run by a Private Sector Partner. The staff figures from 1999-00 reflect the transfer to the Private Sector Partner

Includes all expenditure on publicity and advertising and selling agents' fees.

Table 10e Detailed Estimate

1998-99 Outturn	1999-00 Forecast Outturn		2000-01 Total Provision
175,025	179,041	Running Costs	179,163
75,451	76,546	Core	76,473
99,574	102,495	Operations	102,690
-1,933	-1,933	Other Current Expenditure	-1,933
3,738	423	Capital Expenditure	423
3,238	373	IT Expenditure	390
500	50	Other Capital Expenditure	33
176,830	177,531	Gross Total	177,653
1,364	4,716	Appropriations in Aid	4,838
1,364	4,716	Other Receipts	4,838
175,466	172,815	Net Total	172,815

10.11 Recruitment Practice

The Agency aims to promote and maintain best practice in the recruitment of staff to meet its manpower needs, subject to the requirements of equal opportunities and employment protection legislation. To achieve this, the Agency seeks to ensure that selection is based on merit by fair and open competition and that it provides equal opportunities for employment regardless of race, sex, disability, sexual orientation, marital status or age.

There were no permitted exceptions to the principles of fair and open competition and selection on merit.

10.12 Public Appointments

The Chief Executive of National Savings, Peter Bateau was re-appointed to that position for a further 3 years with effect from July 1999. We currently have 2 non-executive members on the Board: Judy Lowe and James Turner. Both were appointed on 1 September 1997 with contracts lasting for three years.

10.13 Senior civil Service Salaries

Table of senior civil service staff split by salary band is shown in Chart 10b. The information is as at 1 April 1999.

Chart 10b Salary Band

Staff Numbers

£55,000 to £59,999	3
£60,000 to £64,999	1
£65,000 to £69,999	2
£70,000 to £74,999	0
£75,000 to £79,999	1
£95,000 to £99,999	1
£100,000 to £104,999	1
£115,000 to £119,999	1

10.14 Publicity and Advertising

Provision for publicity is set out in Table 10f. It consists mainly of paid advertising in the press and television and promotional literature to market the Agency's products in support of its funding aim.

Table 10f Publicity (£ million)

1998-99	1999-00	2000-01	2001-02
8.3	10.7	8.3	8.3

10.15 Environment

The Agency remains committed to taking account of environmental issues in conducting its business.

By the end of the financial year 1998-99 cumulative energy savings since the start of the Government's energy efficiency initiative in 1990 had reached 30%. This is against a centrally defined target of 20% from 1990 to 2000.

10.16 Bibliography

The National Savings Annual Report and Accounts for 1998-99, published in July 1999, contains a review of the year, including information about performance against key ministerial targets.

National Savings, a Framework for the Agency, issued in 1996, sets out the framework for National Savings' operation as a Next Steps Agency.

National Savings Business Plan 1999-00 to 2002-03, sets out the priorities and Agency performance targets for 1999-00 and the broad strategy for the three year period.



Dr Tim Holt CB
Director

Office for National Statistics



Office for National Statistics

11.1 Introduction

On 1 April 1996 the Office for National Statistics (ONS) was established as an Executive Agency and a department of the Chancellor of the Exchequer. It has about 3,000 staff operating in London, Newport (Gwent), Runcorn, Southport and Titchfield (Hampshire).

The Director is accountable to the Chancellor of the Exchequer for the operation and performance of the Office in accordance with formal roles and responsibilities laid out in the ONS Framework Document. Day to day responsibility is handled by the Economic Secretary to the Treasury.

The creation of ONS underlined the Government's commitment to providing statistics not just to Government but also to Parliament, the citizen, business, researchers, analysts and other customers, and to maintaining public confidence in them. It also recognised the need for greater coherence and compatibility in government statistics, improved presentation and easier public access.

ONS works in partnership with others in the Government Statistical Service (GSS) to provide Parliament, government and the wider community with statistical information, analysis and advice. In this way it aims to improve decision making, stimulate research and informed debate. It protects and helps individuals by administering the registration of key life events. These services are a crucial part of national life and ONS is committed to the continued delivery of the high quality service expected by its users.

The Director of ONS is head of the GSS and the Registrar General for England and Wales.

11.2 Building Trust In Statistics

The White Paper, "Building trust in statistics" (Cm 4412) sets out decisions which the Government has taken in light of a wide range of views following the consultation document, "Statistics: A Matter of Trust" (Cm3882).

The White Paper outlines the accountability and governance arrangements, which the Government intends to introduce, based on: -

- the publication of a framework for National Statistics;
- the appointment of an independent Statistics Commission;
- the appointment of a Head of National Statistics - the National Statistician.

The Statistics Commission, independent of both Ministers and producers of National Statistics will play a key role in ensuring that official statistics are trustworthy and responsive to public needs.

The Head of National Statistics will also be the Director of ONS and Registrar General for England and Wales.

11.3 Responsibilities, Aims and Objectives

ONS has responsibilities which are both statistical and administrative.

Aim

- To provide world class statistical and registration services.

Objectives

- to provide a trusted and authoritative statistical service in accordance with UK, EU and international requirements to improve decision making, stimulate research and inform debate within government and the wider community;
- to ensure the registration of key life events in order to protect and help individuals.

ONS will strive to achieve these objectives in partnership with the rest of the Government Statistical Service and others in the public and private sectors. ONS will seek to:

- improve the quality, relevance and accessibility of its services to all customers;
- improve public confidence in the integrity of its outputs;
- minimise the burden on those who supply it with data, subject to the needs of government and society for high quality information;
- improve value for money and operate efficiently and effectively.

To achieve these, ONS must:

- develop and maintain a well motivated workforce.

11.4 Delivering Better Public Service

PSA Targets

Objective 1: To provide a trusted and authoritative statistical service in accordance with UK, EU and international requirements to improve decision making, stimulate research and inform debate within government and the wider community

PSA target (i)

By 31 March 2000 to implement the outcome of the Green Paper (Statistics: a Matter of trust).

White Paper (Cm4412) published November 1999. Detailed plans under development. Launch date to coincide with the arrival of the National Statistician.

To improve the quality and integrity of official statistics.

Develop independent measures of public confidence in official statistics.

Agree quality and performance standards contained in concordat Service Level Agreements (SLA's) with major clients.

% SLA targets achieved.

PSA target (ii)

By 31 March 2002, to have conducted a good value for money Census within the budget provided, and working in partnership with the private sector.

Census Order laid January 2000.

Processing dress rehearsal spring 1999.

Census Regulations made spring 2000.

Census validation arrangements finalised by Spring 2000.

Additional OPA measures in support of objective 1:

% of high profile releases on preannounced date.

PSA target 100%: Current Outturn 100%.

% response to all public enquiries about statistical activities within 10 days.

PSA target 100%: Current Outturn 100%.

% of other outputs by pre-announced publication date.

PSA target 90%: Current Outturn 94%.

Objective 2: To ensure the registration of key life events in order to protect and help individuals

PSA Target (iii)

Ensure required standards for registration of key life events.

Registration of births not to fall below 99.9 per cent.

% births registered.

PSA target 99.9%: target date 31/03/2000.

% births registered within prescribed time for first registration.

PSA target 99%: target date 31/03/2000.

% deaths registered within prescribed time

PSA target 95%: target date 31/03/2000.

PSA Target (iv):

Minimising the fraudulent use of birth certificates.

To meet timescales for projects agreed by the interdepartmental working group.

PSA target date 31/03/2002.

Additional OPA measures in support of objective 2:

% GRO casework processed within 5 days.

PSA target 99%: Current outturn 99.9%.

% non-urgent casework processed within 20 days.

PSA target 95%: Current outturn 97%.

% certificates provided within specified targets.

PSA target 90%: current outturn 61%.

% Principal Registration offices within satisfactory standards.

PSA target date 31/03/2000.

PSA Productivity Targets.

Limit business compliance cost.

Compliance cost.

PSA target £21.7m: current outturn £21.7m.

By 31 March 2002 to have improved the aggregated efficiency index by at least 15 per cent, compared to the outturn for 1998-99.

Chain linked aggregated efficiency index.

PSA target 96%: target date 31/03/2000.

To reduce year on year the % of running costs expended on overhead activity.

% reduction achieved.

PSA target <26%: target date 31/03/2000.

By 30 September 1999 to have ensured business critical IT systems embedded chips and procedures will not be adversely affected by the millennium date change.

PSA target 100%: *target achieved.*

By 30 September 1999 to complete a risk assessment of any known non-compliance, Business Continuity Plans assessed and full procedures for managing the millennium changeover in place.

PSA target 100%: *target achieved.*

Improved output: By 31 March 2002, reinvestment of at least £30 million in the improvement of statistics, particularly economic.

Reinvestment plans published in ONS Annual Business Plan. Currently appx 6m in year 1.

PSA target date 30/03/2002.

In year monitoring by Management Information System to ONS Executive Committee;

Performance reported in Annual Performance report to Minister, and in Annual Report and Accounts.

PSA target 25%: *current outturn 10%.*

Electronic government: by 31 March 2002, to have contributed towards the general improvements in UK productivity by increasing the availability of electronic communications for the transmission of information between other organisations and the department.

Sick absence: by 31 March 2002 to have contributed to the reduction of public sector sickness rates by 20% by 2001 and by 30% by 2003.

PSA target 7.5 days per person: target date 31/03/2003.

Prompt payment of bills.

PSA target 98%: *current outturn 99%.*

11.5 Modernising Government

National Statistics: The Government's commitment to enhance the integrity of official statistics will lead to the implementation of National Statistics of which ONS will be an integral part. The director of ONS will also be appointed National Statistician with responsibilities across government. When appointed, the statistics Commission will play a key role in quality assurance ensuring National Statistics are trustworthy and responsive to public needs.

Registration Review: Technological changes will improve service accessibility e.g. developing its internet site and links to related services. The redeveloped Births and Deaths Registration Service Software has been implemented in local Registration Offices; a marriages system will be produced. Improved flows of information will include the developed use of the registration Network to streamline links between local offices and the centre.

The Review of the civil registration service in England of Wales is a key issue on the Modernising Government agenda. The modernising Government agenda also highlighted the authentication of citizen's identities. ONS will, as a key member of several working groups continue to provide guidance and policy advice on registration matters, using its knowledge and experience of identity fraud and related issues. The results of public consultation, which brought in 1000 responses from a wide range of people, are currently being worked on.

Efficiency Review: Building on work already done following the recommendations of the 1999 efficiency review of ONS, a project has been set up to review ONS business strategy and plans. The Business Modelling Project will develop the detailed ONS business vision for our statistical business processes in order to maximise use of our data, resources, skills and knowledge.

Public Service: The ONS Southport site and the Family Records Centre in London have achieved Investors in People accreditation the current plan is that the remainder of ONS will be assessed in spring 2000. Managers are carrying out internal assessments in their areas, giving them information on how effectively they are training their staff to achieve their business objectives. The results of the staff perception survey, representing all views and opinions will help teams assess their own performance, identifying areas of improvement and strengths to maintain and build on.

11.6 Targets and Performance

Under its Framework Document, ONS agrees detailed annual targets with Ministers. For 2000-2001 these will be published in the ONS Business Plan 2000-03 in April 2000. Over the forthcoming three-year period, ONS is committed to challenging standards of performance in key areas of its business. In its Public Service Agreement, ONS is committed to meet all its high level targets and deliver a package of statistical improvements, financed by efficiency savings. Individual high level targets are discussed in more detail below.

The Department:

- on 31 March 2000, ONS launched the outcome of the White Paper (Building trust in statistics). This has improved the quality and integrity of official statistics and has been measured by reference to agreed quality and performance standards contained in concordat Service Level Agreements (SLAs) with major clients and by independent measures of public confidence in official statistics.
- will ensure the required standards for registration of key life events.
- 2001 Census: by 31 March 2002, will have conducted a good value for money Census within the budget provided, and working in partnership with the private sector. The key milestones include the following:

2000 January	Census Order laid before Parliament.
2000 Spring	Dress rehearsal (Processing). Make Census Regulations. Finalise census validation arrangements.
2001 April	Census Day (29 April).
2002 Summer	Programme Evaluation begins to compare value for money with the 1991 Census.

These milestones will be discussed in greater detail in the ONS Business Plan 2000-03.

11.7 Efficiency Savings and Targets

ONS will continue to modernise service delivery in order to operate efficiently and provide better and more effective services. In particular, the Office:

- intends to have achieved efficiency savings rising to at least £20 million, which is to be invested in the improvement of statistics, particularly economic. This will be achieved, in part, by implementing recommendations from an efficiency review, the recommendations from which were accepted by Ministers in February 1999;
- has performance measures to reduce the aggregated efficiency index by at least 15 per cent compared to the outturn for 1998-99. This index provides a time series to compare year on year efficiency savings; and

- will have reduced year on year the percentage of running costs expended on overhead activity;
- detailed annual targets for 2000-2001 will be published in the ONS Business Plan 2000-2003.

11.8 Service First - The New Charter Programme

ONS has responsibility for ensuring the provision of the civil registration service. The local service is delivered in partnership with Local Authorities with ONS being responsible for technical aspects.

ONS's main interface with the public is through the sale of certified copies of birth, marriage and death register entries (certificates). Our performances against the major service targets are reported on in the Annual Report and Accounts. The Family Records Centre (a joint ONS/PRO venture) was opened in April 1996 and forms the basis for improved services. Its opening hours include two evenings a week and Saturday. Customers are consulted regularly through a user group and are involved in service developments. These will allow remote ordering as well as by phone, fax and post.

Ministerial cases and those to the Registrar General met the targets published in the Business plan and reported in the ONS Annual Report and Accounts.

The Government has commissioned a review of Civil Registration. The consultation paper "Registration: Modernising a Vital Service" was published on 6 September. One thousand responses have been received and will be used in up dating Government policy on civil registration.

11.9 Better Regulation

In support of the Government's policy of better regulation the ONS has taken the lead in pursuing the recommendations of the Osmotherly Steering Group in its report Statistical Surveys: Easing the Burden on Business. This includes the aim of extending departments' coverage of "survey holidays" for very small firms, giving higher priority to the use of accounting software for extracting data more easily from companies' accounts and making the operation of survey control procedures more targeted to reducing the overall burden surveys impose.

ONS will continue to limit the cost to business of its business surveys, subject to the needs of Government and society for high quality information. A target to limit this compliance cost is agreed annually.

11.10 Information Technology

Electronic Government

The harnessing of technology presents ONS with opportunities to further increase the quality and efficiency not only of data collection methods but also the ways in which statistics and registration services are made available to customers and to the general public.

By 31 March 2002, ONS will have contributed towards the general improvements in UK productivity by increasing the availability of electronic communications for the transmission of information between other organisations and ONS.

Business Surveys: Innovative methods of collecting data from business and individuals, including electronic questionnaires, are being investigated and will be designed to replace paper forms. It is hoped that by 2002, 25 per cent of all business surveys will be carried out in this way by further innovative use of telephone data entry and the Internet to collect data from business, increasing from 2.3% now to 25%. The achievement of this target will depend largely on the level of interest shown by businesses and their willingness to use the new techniques.

Civil registrations: In 1999 ONS updated software used for registering births and deaths locally. In addition, Local Authorities which fund equipment in Register Offices will have the option to join a national network for improving electronic transmission of registration information to ONS, and information and guidance to Register Offices. In the short term, ONS is developing an electronic ordering service for certified copies of birth, marriage and death register entries (certificates) for its main customers, i.e. genealogists, who currently hold microfiche copies of the indexes.

Public enquiries: The department aims in the short term to increase the number of transactions by telephone. The long-term aim is to encourage the public to switch from telephone enquiries to the Internet. The increasing prominence given to email addresses in news releases and publications is designed to encourage enquiries using Internet e-mail to ONS and via the ONS Website.

StatBase: On 1 October 1998, StatBase was launched on the World Wide Web. It has been designed to become the main shop-window for the National Statistics and to provide electronic access to official statistics. The service will be invaluable to anyone who wants to find out about official statistics, and how to get hold of them. In time, it will put on display pointers to all of National Statistics work, including products and services.

Government Secure Intranet (GSI)

ONS has a version of the statistics delivery system, StatBase, available through GSI from December 1998. This will provide users of the GSI with access to the StatBase data and facilities currently available on the Internet.

ONS will be making proposals for further uses of the GSI during the course of 2000.

Y2K and the Millennium threat

The millennium Date Change passed without material disruption to ONS services. ONS will remain vigilant when checking data quality and the results of calculations, as many systems have yet to process Year 2000 dates.

11.11 Human Resources, Equal Opportunities and Recruitment

At the heart of ONS's Vision and Values is the aim of developing and maintaining a well-motivated workforce. A high priority is given to training and development of staff and the Office is committed to operate a fair and open appraisal and promotion system, and to provide equality of opportunity.

ONS recognises the need to provide the conditions that allow staff to give of their best and to develop to their full potential. In line with this commitment, the Office intends to achieve accreditation to the proven national IiP standard during 2000.

Overall responsibility for training and development lies with all line managers who are encouraged to be directly involved in identifying the development needs of their staff.

The department is drawing up a Civil Service Reform action plan, which has the support and involvement of top management.

Equal Opportunities Policy

ONS strives through its policies and practices to achieve equality of opportunity in employment and fair treatment for all its employees. It will ensure that all applicants for employment and all current employees are judged purely on merit. The Department promotes and supports Positive Action Groups as well as a number of other initiatives, including equal opportunities training for all our staff.

All staff receives specific equal opportunities awareness training. Staff new to ONS are invited to attend an equal opportunities awareness course as part of the standard induction process.

The established programme of action for women, ethnic minorities and disabled staff offers all staff personal development opportunities and is designed to promote a

culture which will result in increased representation of women, ethnic minorities and disabled staff in senior posts within the Department. Currently 25% of our Senior Civil Service posts are filled by women and 4% by disabled staff.

The Director of ONS has taken up the Commission for Racial Equality's Leadership Challenge and has endorsed this programme within the Department. There will be a commitment to equality of opportunity in our next business plan.

As a matter of priority, ONS is taking steps to encourage more ethnic minority candidates to apply for the fast stream Assistant Statistician Scheme, to increase the numbers in this feeder group for the Senior Civil Service. We will be liaising and co-operating with the Cabinet Office, who are taking the lead.

Recruitment practices within ONS

ONS is committed to selection on the basis of fair and open competition. In accordance with the Commissioners' Recruitment Code there are systems in place to ensure that this is the case.

- Recruitment schemes are carried out using the ONS Recruitment Handbook, which covers the procedures laid down by the Commissioners' Recruitment Code. The

Handbook is reviewed regularly so that it is in line with any changes to the Code and to Equal Opportunities policy.

- Recruitment schemes are subject to internal checks using a system of internal auditing across sites on an annual basis.
- A nominated Approving Officer checks all recruitment schemes before new staff are appointed.
- A record is kept of any contracts that are extended using the permitted exceptions. These are published on an annual basis in the ONS annual report. The use of exceptions is kept to a minimum.

11.12 Running Costs and Staffing

The ONS Vote (Class XVI, 11) is in two parts: Section A deals with administration costs such as salaries and general administrative expenditure, and capital purchases such as information technology equipment, office equipment and furniture; Section B deals with customer-funded work arising from social surveys and sales of certified copies of birth, marriage and death registrations, statistical information, publications and other services. Running costs provision and staff plans are set out in Tables 5a and 5b.

Table 11a: Running Costs (£000s)

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Forecast Outturn	2000-01 Plans	2001-02 Plans
Running Costs, Gross Control								
Running costs	101,476	106,409	98,607	97,989	104,543	110,747	149,353	192,437
Related Receipts	-12,936	-14,710	-14,245	-11,294	-13,738	-14,623	-19,680	-17,329
Net Expenditure	88,540	91,699	84,362	86,695	90,805	96,124	129,493	175,108
Running Costs, Net Control								
Running costs	26,622	26,176	16,564	15,529	17,392	16,750	16,750	16,750
Related Receipts	-26,459	-25,977	-14,666	-17,371	-17,904	-17,003	-17,003	-17,003
Net Expenditure	163	199	1,898	-1,842	-512	-253	-253	-253

The figures for 1994-95 to 1995-96 are the sum of the outturns for CSO and OPCS. Within the gross controlled area for 1998-99 a total of £882k of running costs was vired to meet excesses incurred on other current and capital expenditure. Neither the gross nor net running costs limits were breached.

Figures for 1998-99 onwards include additional provision for planning, fieldwork and initial processing of the 2001 Census of Population in England and Wales.

TABLE 11b: Staff (Staff Years)

1993-94	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Outturn	2000-01 Plans	2001-02 Plans	Plans
(Gross Control Area)									
Staff FTEs*	3,153	3,010	2,914	2,866	2,700	2,615	2,600	2,600	2,600
(Net Control Area)									
Staff FTE's	513	573	514	387	368	373	373	373	373
Totals	3,666	3,583	3,428	3,253	3,168	2,988	2,973	2,973	2,973

*Excludes casuals

Table 11c: Reconciliation of Cash Plans with Estimates (£000s)

	1999–2000	2000–2001	2001–2002
(Programme 13)			
SECTION A			
Gross Running Costs	119,225	148,632	192,433
Other Current	-190	-190	-190
Capital	4,896	5,326	5,416
Receipts	-13,497	-19,860	-17,329
Totals	108,984	133,908	180,330
SECTION B			
Gross Running Costs	16,750	16,750	16,750
Other Current	0	0	0
Capital	654	654	654
Receipts	-17,146	-17,146	-17,146
Total	258	258	258
ONS CASH PLANS	110,242	134,166	180,588
(program 27)			
Section A			
Receipts (Eurostat)	-1,000	-1,000	-1,000
ONS Estimates	109,242	133,166	179,588

Cash plans

Vote Section	Outturn 1994-95	Outturn 1995-96	Outturn 1996-97	Outturn 1997-98	Outturn 1998-99	Outturn 1999-00	Plans 2000-01	Plans 2001-02
Spending in Department Expenditure Limits (DEL)								
Central Government spending								
A Administration (Gross Control)								
1A Running costs	102,573	107,151	98,607	97,989	104,492	112,099	151,432	198,433
2A Other Current	0	0	0	1,994	610	190	190	190
3A Capital	4,693	10,961	23,392	7,073	5,545	6,546	5,326	5,416
AZ Appropriation in Aid	-14,033	-15,452	-14,245	11,294	-13,738	-14,028	-19,860	-17,329
B Customer funded (Net Control)								
1B Running costs	26,622	26,176	16,564	15,529	17,392	17,651	16,750	16,750
2B Other Current	0	0	0	0	0	0	0	0
3B Capital	407	600	642	653	556	654	654	654
BZ Appropriations in Aid	-26,866	-26,577	-14,666	-17,371	-17,904	-18,046	-17,146	-17,146
Total ONS spending in DEL	93,396	102,859	110,294	94,573	96,953	104,686	136,966	186,588

The following tables show 1998–99 forecast outturn and 1999–2000 to 2001–02 planned expenditure and receipts, by business activity areas:

TABLE 11d: Breakdown of Forecast Outturn for 1999-2000 by Individual Function (£000s)

	Direct Expenditure			Grants and Transfers				Net Total
	Running Costs	Other Current	Capital	Current	Capital	Gross Total	Appropriations in aid	
Central Government's own expenditure	112,099	-190	6,546	-	-	118,455	-14,028	104,427
Customer funded activities	16,750	0	654	-	-	17,404	-17,146	258

TABLE 11e: Expenditure and Receipts by Directorate

	1999–2000 Forecast outturn		2000–2001 Plans		2001–2002 Plans	
	Expenditure	Income	Expenditure	Income	Expenditure	Income
Direcorate						
Economic Statistics	27,615	2,265	28,106	2,617	25,259	2,617
Social Statistics	34,883	15,145	36,682	15,609	34,189	15,609
Census	13,905	930	43,868	633	89,887	633
Method and Quality	14,910	373	15,459	188	10,157	188
Registration	14,955	10,398	13,779	9,915	13,409	9,915
Finance and Corporate Services	29,591	2,321	30,781	2,146	27,518	2,146
Accommodation	11,664		12,283		13,969	
Total	135,859	31,432	170,612	31,218	200,421	31,108

TABLE 11f: Capital Expenditure

	1994 – 95 Outturn	1995 – 96 Outturn	1996 – 97 Outturn	1997–98 Outturn	1998–99 Outturn	1999–00 Forecast	2000–01 Plans	2001–02 Plans
(Gross Control)								
Capital Expenditure of which:	4,693	10,961	23,392	7,073	5,494	6,546	5,276	5,366
Drummond Gate	-	850	15,622	900	-	-	-	-
(Net Control)								
Capital Expenditure	407	600	642	653	556	654	654	654

During 1996-97 ONS moved most of its London staff from four existing sites to a complex of buildings at Drummond Gate Pimlico. Most of the cost of the refurbishment and fitting out of these buildings fell in 1996-97.

Other Capital expenditure will be largely devoted to providing common office IT systems and software for ONS. The remaining expenditure will be mainly for capital works on other sites.

Additional capital expenditure originally planned for the future for the processing of the 2001 Census has now been moved into running costs because of the Census Open Options Procurement scheme.

11.13 Departmental Investment Strategy

ONS invests its departmental investment fund in IS systems and property. The aim is to balance the costs of enhancing systems and property to their maximum potential against the impact on the organisation that the associated change would bring. The total investment is also prioritised, as part of the annual planning round, against operational demands for funding with priorities being assessed in line with ONS's aims and objectives. The overall approach is a move to public-private partnerships where there is a transfer of risk to the private sector. This is demonstrated most clearly with the 2001 Census of Population where the investment in hardware for the data collection and processing will be made by the private sector not, as in the past, by government. ONS are currently reviewing its Departmental Investment Strategy as part of the 2000 Spending Review input.

11.14 Invest to Save Budget

In February 1999, the Treasury announced that funds from the 'Invest' to 'Save' budget round 2 would be made available for two projects:

2001 Census public sector dataset... to deliver the results of the Census in unrestricted and user friendly ways throughout the public sector. It will supply whatever user needs from a single dataset of statistics, geography and supporting information with a choice of means of delivery and facilities to suit all levels of expertise. The whole approach will be innovating and will remain responsive to changes in user needs and technology. ONS will work in partnership with DETR, Department of Health (on behalf of the NHS), the local Government Association and ESRC.

Rationalising existing postcode location products... along with Royal Mail, Ordnance Survey, GRO(S) and Ordnance Survey Northern Ireland to deliver a single, consistent, high quality and adaptable, jointly branded base portfolio of postcode location products and improved access mechanisms, including access via the internet and improved metadata.

11.15 Performance in Paying Bills

ONS complies with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890). Our payment policy is to pay bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. The Office aims to keep its payment performance percentage at the current level of 98%.

TABLE 11g: Senior Civil Services Salaries as at 1 December 1999⁽¹⁾ (including allowances)

Pay Band	Number of senior staff
Below £40,000	Nil
£40,000–£44,999	Nil
£45,000–£49,999	3
£50,000–£54,999	10
£55,000–£59,999	5
£60,000–£64,999	6
£65,000–£69,999	1
£70,000–£74,999	1
£75,000–£79,999	2
£80,000–£84,999	1
£85,000–£89,999	Nil
£90,000–£94,999	1
£95,000–£99,999	Nil
£100,000–£104,999	Nil
£105,000–£109,999	1

⁽¹⁾ Due to significant changes to the senior management structure between April and December 1999, the table shows SCS salaries as at 1 December 1999.

11.16 Public Appointments

ONS has a Policy Board to help the Director on policy development, strategic thinking, supervising the management of the Office and external accountability. It consists of senior managers from ONS and two non-executive members appointed with the agreement of the Chancellor of the Exchequer. The non-executive members are independent of management and have the knowledge, experience and authority to enable them to influence the Board's decisions.

In October 1999, the Government published a White Paper Building trust in statistics' setting out new arrangements to improve the governance, accountability and integrity of official statistics. A key element to the new arrangements will be the creation of a Statistics Commission, independent of both Ministers and producers of official statistics, who will publicly advise Minister on official statistics. Members of this Statistics Commission will be appointed following a transparent appointments process based on merit, in accordance with the code of practice published by the Commissioner for Public appointments, and are expected to be recruited early in 2000.

11.17 The Environment

A “Greening ONS Operations” policy was launched in early 1999 with the approval of the ONS Board and the Minister. This confirmed ONS policy of conserving energy, water, wood, paper and other resources and reducing waste through re-use, recycling and by procuring refurbished or recycled products wherever possible. The revised policy statement confirms the aim energy and water consumption per head by 4% over 1997-98 levels by March 2000, as ONS’s contribution towards the Government-wide target of 20% reductions over 10 years. It also commits ONS to reduce greenhouse gas emissions (CO₂) by 1% per annum over 1999-00 levels (a target set by Green Ministers and awaiting ENV approval).

ONS will carry forward work in support of a further Government commitment for 75% of departments to introduce an environmental management system on at least one site by March 2001. More detail will be set out in ONS’s business plans for 2000-01. Ian Lewis (01633 812331) is the Department’s contact on green issues.

11.18 Bibliography

Details and information on ONS’s business aims and objectives can be found in the Agency’s Framework Document, Business Plan, Compliance Plan, Corporate Vision and Values documents, and Annual Report and Accounts. Copies can be obtained from the ONS Library, Government Buildings, Cardiff Road, Newport (Gwent). Telephone: 01633 812973.



Geoffrey Fitchew CMG
Chief Registrar

Registry of Friendly Societies



Registry of Friendly Societies

On 23 July 1997 the then Economic Secretary to the Treasury announced that all the functions carried out by the Building Societies Commission (BSC), the Friendly Societies Commission (FSC) and the Central Office of the Registry would be transferred to a new single regulator of financial services subsequently named as the Financial Services Authority (FSA). The transfer of functions will take place through secondary legislation, following the passage of the Financial Services and Markets Bill through Parliament. On present progress Royal Assent is expected in Spring 2000.

Since the announcement, the staff of the Department have been co-operating with their counterparts in the FSA and the other financial regulators in the work of creating the new single regulatory regime and in preparing for the transfer of responsibilities following the enactment of the relevant legislation. In order to further assist with this process it was agreed that the services, currently provided by RFS to the BSC, FSC and the Credit Union section of Central Office should be contracted out under Service Level Agreements (SLAs) to the FSA from 1 January 1999. The staff providing these services transferred to the FSA's new offices in Canary Wharf where they continue to provide them, either as secondees or as direct employees of FSA. The BSC, FSC and the Chief Registrar receive quarterly reports on the level and quality of service provided by the FSA. These have so far demonstrated that the FSA has met the requirements laid down in the SLAs.

It is anticipated that all the functions of the Registry of Friendly Societies, BSC and FSC will be transferred to FSA later in the 2000-01 financial year, following the enactment of the Financial Services and Markets Bill. The information contained in this report should therefore be considered in the context that the Registry of Friendly Societies will shortly cease to exist.

12.1 Departmental Aims and Objectives

Until 1 January 1999 the Registry of Friendly Societies provided direct support services for three statutory authorities: the Building Societies Commission (BSC), the Friendly Societies Commission (FSC) and the Central Office of the Registry of Friendly Societies. Since 1 January 1999 the support services for the BSC, FSC and, in relation to credit unions only, the Central Office have been provided under Service Level Agreements with the FSA. The department and the statutory authorities are linked by a common overall aim:

“to help create the most favourable regulatory climate for the formation and long term success of mutual societies, ensuring that they provide proper stewardship of individual members' funds.”

Each of the three statutory bodies has individual objectives and in helping them to meet these objectives the Registry of Friendly Societies ensures that it operates efficiently and effectively within existing resources.

The objectives of the three statutory authorities are:

12.2 Building Societies Commission (BSC)

To sustain an efficient market in the building societies sector in which consumers are protected by:-

- promoting the protection by each building society of the investments of its shareholders and depositors;
- promoting the financial stability of building societies generally;
- securing that the principal purpose of building societies remains that of making loans which are secured on residential property and are funded substantially by members;
- administering the system of regulation of building societies under the Building Societies Act 1986 (as amended by the Building Societies Act 1997);
- advising and making recommendations to the Treasury and other Government Departments on any matters relating to building societies.

12.3 Friendly Societies Commission (FSC)

To sustain an efficient market in the friendly societies sector in which consumers are protected by:-

- promoting the protection by each friendly society of its funds;
- promoting the financial stability of friendly societies generally;

- securing that the purposes of each friendly society are in conformity with the Friendly Societies Act 1992 and any other enactment regulating the purposes of friendly societies;
- administering the system of regulation of the activities of friendly societies;
- advising and making recommendations to the Treasury and other government departments on any matter relating to friendly societies .

12.4 Central Office of the Registry

To enable all mutual societies to benefit from the business, legal and/or cost advantages of registration and maintain an accurate, open and accessible public record file.

12.5 Summary of Progress to Date

Expenditure by the Registry of Friendly Societies falls on Class XVI, Vote 9.

The BSC, the FSC and the Chief Registrar, on behalf of the Central Office, each report formally to Parliament and full details of each organisation's activities, progress and achievements during 1998-99, are provided in their respective annual reports (see bibliography).

In supporting the above three statutory authorities the department has 6 main operational objectives covering BSC, FSC, Central Office registration functions, credit unions and value for money.

Objective 1:

to provide support to the BSC in supervising and regulating building societies

From 1 January 1999 this support has been provided through the Service Level Agreement with the FSA. Under the new arrangement day to day supervision of building societies has continued to be the main business of the Commission. This includes holding an Annual Review Meeting with each society.

During 1998-99 the Commission completed a comprehensive review of its prudential guidance, taking account of the changes flowing from the Building Societies Act 1997, and has published both the Statement of Principles and a new revised series of Prudential and Guidance Notes. Additional policy guidance and advice on a wide range of subjects were issued including 26 "Dear Chief Executive" letters.

The Commission also worked closely with the FSA's Year 2000 Unit monitoring the progress of each society towards the achievement of Year 2000 compliance and the preparation of business continuity plans against failure or interruption of their

business processes. Societies were required to make formal assessments of their state of preparedness and to confirm that adequate resources had been allocated to the issue.

During the year the Commission also supervised and confirmed the transfer of the Birmingham Midshires building society from the sector.

Objective 2:

to provide support to the FSC in supervising and regulating friendly societies

From 1 January 1999 this support has been provided through a Service Level Agreement with the FSA. The Friendly Societies Commission seeks to meet its objectives within the doctrine of prudential regulation of the life assurance industry in the UK of "freedom with disclosure".

As part of this societies are required to submit accounting and actuarial returns prescribed by the Commission and designed to disclose the financial position of societies in a relevant and practical manner. The committees of management of societies also have to satisfy a number of criteria of prudent management as set out in the 1992 Act and the Commission assists this process by issuing guidance on relevant topics. During 1998-99 the Commission published 11 Chief Executive Letters on a variety of topics, including the timely submission of statutory accounts and returns, the use of derivatives, and updates on legislative changes.

Ten Periodic Review Meetings with the committees of management of Directive societies were held during 1998-99. The Commission and societies find these meetings beneficial and they make a significant contribution to the effectiveness of the supervision of societies.

Objective 3:

to secure the maximum cooperation and support from registered societies to minimise the need for recourse to regulatory sanctions or prosecutions

The FSC reminded societies in December 1997 and again in May 1998 of the importance the Commission attaches to the timely submission of their accounts. A small minority failed to heed these warnings and towards the end of 1998-99 the Friendly Societies Commission instituted proceedings against the committees of management of a number of societies.

It was hoped that the introduction of orders made under deregulation legislation would help industrial and provident (I&P) societies and societies registered under the Friendly Societies Act 1974 (FSA74) to improve upon their timeliness in submitting annual returns and accounts. However, for I&P societies only 55% of annual returns were made by the due date, the same as in the previous year. Further guidance is being

issued to advise societies that with a rule change they may, in some circumstances be able to take advantage of less onerous audit requirements and at the same time reduce their costs.

Some societies were prosecuted during 1999 for failing to submit annual returns and accounts by the due date. The resulting fines varied with the maximum of £1,000 being imposed in some cases. Costs are also normally awarded. It is also hoped that the publicity given to prosecutions in local papers and trade journals will encourage other societies to submit their annual returns on time.

Objective 4:

to support the Central Office's registration and associated functions (including the maintenance of accurate and accessible public records)

About 14,000 societies are registered with the Central Office which records and files each society's annual return. In 1999 some 10,300 annual returns were filed together with over 4,000 other formal documents. There were also approximately 2,100 searches of public record files. The Central Office has continued to try to ensure that the public record file is kept up to date by encouraging the timely and accurate submission of returns. Where it is clear that a society has in effect ceased to exist, Central Office seeks to remove it from the register. The Central Office began a special exercise in April 1998 to update the register, by establishing the status and current registered office addresses of societies with which contact had been lost for various reasons, and to secure formal deregistration of those societies which are now defunct. As a result of this exercise approximately 900 societies have been removed from the register and the records of others have been updated.

Objective 5:

to support the Central Office's registration, supervision and regulation of Credit Unions.

From 1 January 1999 this support has been provided through a Service Level Agreement with the FSA. At 31 December there were 666 credit unions with assets totalling some £170 million. A full programme of pre-registration and supervisory visits has been undertaken during the year.

On 16 November 1999, Melanie Johnson, Economic Secretary to the Treasury, announced that credit unions would be brought within the scope of the FSA's regulatory and supervisory powers; measures would be taken to improve the regulatory framework of credit unions; and the Government had accepted the recommendations of the Goodwin Taskforce and Policy Action Team on Access to Financial Services. The Registry is exploring with the Treasury how best to implement the recommendations of the Taskforce and Policy Action Committee, including what legal changes might be necessary for credit unions to establish a Central Services Organisation.

The RFS and FSA are working together to devise a new framework for regulating and supervising credit unions which will be brought into force after enactment of the Financial Services and Markets Bill.

The Registry has continued to hold meetings with representatives of the three promoting bodies, credit union development workers and other persons interested in the future of the credit union movement. They provided useful forums for discussing the implications of the establishment of the FSA for the future regulation of credit unions and other issues. The Registry has found regular liaison to be helpful in receiving informal feedback from the sector and as a means of addressing issues before they become problematic.

Improving services and value for money

Objective 6:

to deliver high quality services to mutual societies and other customers in the most economic, efficient and effective manner

RFS and FSA co-operated closely in investigating and testing the department's IT systems for any difficulties that might occur as a result of the Y2K problem. Remedial action was taken to deal with the small number of defects detected. In the event no problems have occurred at the date of this report.

A new and improved system for building societies to send in their financial returns to the Building Societies Commission was introduced during 1998. The system includes the capacity for societies to send in the required returns by Remote Data Entry.

The Central Office makes use of a computer based information system (TRACS 1 and 2) to record operational information on registration matters. The system also allows the Friendly Societies Commission to respond should a society default in its statutory duty to file returns and to detect quickly financial trends of potential prudential concern.

The department's accounting, budgeting and management reporting systems are fully supported by IT systems enabling accurate and timely information to be provided efficiently and economically.

Performance indicators are in use across the department and are used to define service standard requirements in the SLAs with the FSA. Financial performance is reported on an accruals basis for both the BSC and FSC in line with Companies Act requirements.

A number of output measures have been developed for BSC and FSC supervisory work. For example, BSC measures enable management to verify that a full risk appraisal is carried out of all societies, that abstracts from monitoring reports are

circulated within a specified number of days and that there are timely monthly monitoring reports to senior management. Similarly, the FSC has a programme of examination and report according to predetermined priorities, with monthly monitoring of progress.

Central Office has a number of quality of service indicators (which have maintained the improved levels achieved in recent years). They include:

- (a) Variable targets of between 7 and 42 days for different case types which are fed into the TRACS 1 computer system (85-90 per cent (depending on type) of cases within target).
- (b) Files provided for Public Search customers: 3 hours (100 per cent achieved).
- (c) Copying for search customers: 2 working days (98 per cent achieved).
- (d) Acknowledgment of correspondence within 2 days if no substantive reply likely within 5 days (this reduces the number of reminders received from societies), (95 per cent achieved).

In addition, the percentage of annual returns received on time is monitored (for 1998 it was 55 per cent for I & P societies and 59% for societies (other than Friendly Societies) registered under the Friendly Societies Act 1974).

In the first half of the year focus group meetings were held with representatives of sponsoring bodies for I & P societies and clubs as well as with lawyers advising such societies. Other focus groups were held for search and copy customers and for representatives of the friendly society movement. These produced useful exchanges of views and ideas and a strengthening of the relationship between the Registry of its customers. In response to requests at these meetings the Central Office's new guidance notes are now made available in large type and on tape.

Prompt payment of bills is monitored and the Department has signed up to both the CBI Prompt Payers Code of Good Practice and the British Standard on the Method for Achieving good payment performance in commercial transactions (BS 7890). The department's payment policy is to pay bills in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of goods or services or the presentation of a valid invoice, whichever is the later. Payment performance for the period 1 April 1998 to 31 March 1999 showed that 98.4 per cent of invoices were paid within the payment policy terms.

12.6 Departmental Running Costs, Capital and Staffing

Running costs and other current costs are split between the Building Societies Commission (BSC), the Central Office and the Friendly Societies Commission (FSC).

Table 12a Running Costs, other current costs and staffing
£million

Vote section	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Estimated Outturn	2000-01 Plans
9 A							
Running Costs.	8	8	8	7	7	2	2
Other Current.	-	-	-	-	-	6	5
Related Receipts.	(5)	(5)	(5)	(5)	(6)	(6)	(6)
Net cost.	3	3	2	3	1	3	3
Paybill.	5	5	5	5	5	1	
Manpower (FTE's).	183	172	168	162	112	50	

All department's expenditure is in support of its administration. In 1999-2000 running costs of £2.4 million relate to expenditure on the Central Office (excluding credit unions) of the Registry of Friendly Societies. Other current costs of £6.0 million relate to the provision of support services by the FSA to the BSC, FSC and the Credit Union Section of the Central Office.

The revenue costs of the BSC are recoverable from the building societies, taking one year with another, through a general charge and fees for specific activities. The Central Office may only charge fees to recover the costs of specific registration activities. A general charge is also levied on friendly societies, initially to meet part of the FSC's costs. This levy is being increased over a period of years so as to achieve full cost recovery by 2000-2001. (See table 12b):

Table 12b: Appropriations in aid (£million)

	1998/99	1999/2000	2000/2001
	actual	estimated outturn	plans
General charge on building societies	3.75	2.88	2.40
General charge on friendly societies	1.01	1.30	1.70
Statutory fees from mutual societies	1.74	1.35	1.46
Sales of publications	0.02	0.01	0.01
Rent received	0.15	—	—
VAT Refunds	0.14	0.06	0.05
Sale of assets	3.98	—	—
Total	10.79	5.60	5.62
Consolidated Funds Extra Receipts	0.22	—	—

Table 12c: Breakdown of forecast of outturn for 1999-2000 by individual function (£ million)

Direct expenditure			Grants and transfers			Gross Total	Appropriations in aid	Net total
Running Costs	Other Current	Capital	Current	Capital				
2.4	6.0	0.1	--	--	8.5	5.6	2.9	

12.7 Staffing

The Registry is committed to selection on merit on the basis of fair and open competition. In accordance with the recruitment code laid down by the Civil Service Commissioners there are systems in place to ensure that this is the case and these systems are subject to internal checks.

During the year 10 staff were recruited. 7 of the recruits were women and 6 of those recruited were from ethnic minorities.

On 1 December 1999 58 per cent of the Registry's staff were men and 42 per cent were women. Ethnic minorities accounted for 23 per cent of staff.

Table 12d: Senior Staff Salaries

Salary Bands	Number of Staff
Below £40,000	2
£40,000 - £44,999	-
£45,000 - £49,999	-
£50,000 - £54,999	-
£55,000 - £59,999	-
£60,000 - £64,999	1
£65,000 - £69,999	1

The following table shows the number of senior civil servants by salary band at 1 April 1999.

12.8 Capital Assets

In January 1999 a majority of the staff of this Department moved to the FSA, based at Canary Wharf. As a result the Department was able to give up a large proportion of its London building to the Inland Revenue in return for a payment from PACE. The Department is now a minor occupier under a Memorandum of Terms of Occupation with Inland Revenue.

At the same time, the personal computers used by the those individuals transferring were sold to the FSA at book value so that they could be taken with them. A bespoke system developed for the BSC for use in the financial monitoring of building societies was also sold to the FSA at book value.

It is anticipated that when the work of the Central Office and the remaining staff transfer to the FSA over the next few months that most of the remaining IT equipment will be sold to the FSA at book value and that the remainder of the building will be disposed of to PACE for the use of Inland Revenue.

12.9 Bibliography

The following publications are available through the Department:

Report of the Chief Registrar 1998-99 (£10.00)

Annual Report of the Building Societies Commission 1998-99 (£13.00)

Annual Report of the Friendly Societies Commission 1998-99 (£6.00)

Section D: Financial Transactions with European Community Institutions

Introduction

The United Kingdom's financial transactions with the European Community (EC) are based on its Treaty obligations. In particular, the provisions of the Own Resources Decision, which sets out the system for raising revenue from Member States to finance the EC budget, determines the basis of Member States' contributions to fund the annual Community budget.

The UK helps to determine Community expenditure through the annual EC budget round and the negotiation of the multi-annual Financial Perspective, which sets a framework for the Community budget. These budgetary negotiations take place in the context of the Inter-Institutional Agreement between the Council, the Commission and the European Parliament.

The UK Government's overall aim for Community spending is, through strict budget discipline, to achieve value for money and to ensure that the UK taxpayer contributes no more than is necessary to the costs of the Community. The objective is to ensure Community spending is well-targeted and to achieve low overall increases in the size of the Community budget, year on year, commensurate with the Community's needs.

13.1 Financial Transactions

The UK makes gross contributions to the EC budget on the basis of customs duties, including those on agricultural products, sugar levies, VAT-based contributions and the GNP-based contributions. Included within these are the UK's contributions to Community expenditure on overseas aid, which is attributed to the aid programme, to Community expenditure on the Common Foreign and Security Policy, which is attributed to FCO, and to the capital of the European Investment Bank.

The UK benefits from gross receipts from Community spending programmes, as well as receipts from the European Coal and Steel Community.

The calculation of net payments is affected by the UK's abatement (see section 13.4), which significantly reduces the UK's net contributions to the Community.

13.2 Gross Contributions

Contributions by member states to the EC budget ("own resources") consist of four elements:

- **Customs duties, including those on agricultural products.**
These are paid on a range of commodities imported from non-member countries. Following the agreement on agriculture during the Uruguay GATT Round, most agriculture duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices;
- **Sugar Levies.**
These are charged on the production of sugar to recover part of the cost of subsidising the export of surplus Community sugar onto the world market;
- **Contributions based on VAT.**
Essentially, the VAT base is the amount yielded by applying a notional rate of 1% to an identical range of goods and services in each Member State. Member States are, however, subject to a cap on their VAT contribution as a share of their Gross National Product;
- **GNP-based Contributions.**
The amount due is calculated by taking the same proportion of each Member States' Gross National Product. Because the Community is not allowed to borrow, revenue must equal expenditure. The GNP resource is the budget-balancing item; it covers the difference between total expenditure in the budget and the revenue from the other three resources, subject to the overall own resources ceiling

The first two Own Resources are known collectively as "Traditional Own Resources". The VAT and GNP-based contributions are often referred to as the "Third" and "Fourth" Own Resources respectively.

Contributions relating to the fourth resource, and to a significant extent those relating to the VAT resource, are directly influenced by movements in Member States' GNP. If a Member State's GNP is growing relatively fast compared to others, it will see a relative increase in its contributions.

Member States' total contributions may not exceed the overall annual ceiling on own resources established by the Own Resources Decision. Under the Decision, adopted in accordance with the agreement at the Edinburgh European Council of 1994, this ceiling is now 1.27 per cent of Community GNP. The Decision also gradually increases the proportion of the GNP-based resource and reduces that of the VAT-based resource. At the same time, the cap on the VAT base in each Member State expressed as a proportion of its GNP was, also in stages, reduced. The final stage occurred in 1999 when the capping rate was reduced to 50%, of 1%, of GNP for all Member States. An immediate reduction to 50%, of 1%, was made for the four poorest Member States, so that their VAT bases have been capped at this rate retrospectively since 1 January 1995.

In recent years the VAT element has been the largest source of revenue for the Community. But in the 1999 EC supplementary and amending budget No. 3 and 2000 EC adopted budget it accounts only for some 38 per cent and 37 per cent, respectively, of Member States' gross contributions, whereas, fourth resource contributions (including contributions to Community reserves) account for 46 per cent and 49 per cent respectively. It is expected that fourth resource contributions will continue to form the largest single element of revenue for the Community. The UK's share of total own resources in the 2000 adopted budget is around 18 per cent before abatement and around 14 per cent after abatement.

13.3 Gross Receipts

The UK public sector share of receipts from the EC budget is expected to be around 8 per cent of total Community spending in 2000. The UK's receipts come mainly from the European Agricultural Guidance and Guarantee Fund (EAGGF), the Social and Regional Development Funds and the Community's Research and Development Framework Programme. Around 90 per cent of total UK receipts - including all EAGGF and structural funds receipts - are paid, at least initially, to the public sector. Most of this is accounted for by payments to the private sector or used in its support. Receipts for research and development are mainly paid direct to the private sector and do not, therefore, score in the Government's accounts.

Expenditure by UK public authorities which is funded by the EC budget is recorded in the relevant departmental programme, eg that of the Intervention Board. Receipts from the EC which finance such expenditure are recorded as a negative item in net payments to EC institutions; see Table 13a, line 2. Table 13c summarises UK public sector receipts, while Chart 13a illustrates the relative amounts, by budget category, which the UK public sector gets from the Community.

A detailed analysis by department and Community fund is set out in Table 13d. The figures in Table 13d represent departments latest estimates of the level of receipts which they expect to receive from the Community and may differ from the levels used at the time of the Comprehensive Spending Review.

13.4 UK Abatement

Under the Own Resources Decision, the Commission determines the UK's abatement, according to a formula set down in a Working Document published in 1988 and revised in 1994.

The UK's VAT contributions are abated according to a formula set out in the Own Resources Decision and in the Working Document. Broadly, the abatement is equal to 66 per cent of the difference between what the UK contributes to the Community budget and what the UK receives from the budget (in terms of EC grants and expenditure in the UK), subject to the following points:

- a) the abatement applies only in respect of spending within the Community. Expenditure outside the Community (mainly aid), amounting to around 6 per cent of total EC budget expenditure in 2000, is excluded;
- b) the UK's contribution is calculated as if the budget were entirely financed by VAT;
- c) the abatement is deducted from the UK's VAT contribution a year in arrears.

The Commission calculates the abatement on the basis of its estimates of the likely outturn for payments from the budget in-year, and of its estimates of Member States' contributions to the budget. This is then corrected in the light of actual outturn figures - both for payments from the budget and for Member States' contributions. Corrections may be made up to three years after the year in respect of which the abatement relates, after which a final reckoning is made in the fourth year.

The UK's abatement in the 1999 EC supplementary and amending budget No.3 and the 2000 adopted budget are £2,394 million (3,394 million euro) and £2,260 million (3,636 million euro), respectively. The difference between the amounts for 1999 and 2000 is a result of factors such as the movements and changes in the UK's gross contributions and receipts, described in Section 13.5, and exchange rate movements. The underlying level of the abatement is currently around £2.2 billion a year. By the end of 1999-2000, the total abatement made since the Fontainebleau agreement in 1984 is expected to be around £27 billion.

13.5 Forecast Methodology

The Community's financing system produces considerable fluctuations in Member States' contributions from year to year. The fluctuations are caused by factors such as the adjustments made to Member States' gross contributions in previous years as later information becomes available, differences in the level and timing of receipts and changes in the size of the UK's abatement. The effects are particularly marked in the case of the UK because we use a different financial year to that of the Community (where the financial year coincides with the calendar year).

In view of these fluctuations and the difficulties of predicting the net position accurately, the Treasury decided from 1996 to move from preparing forecasts of the UK's actual annual net contributions to preparing forecasts in respect of future years' net contributions to the EC budget on the basis of the statistical trend in future Community costs.

13.6 Outturn, Estimates and Forecasts

The data in respect of the UK's net payments is presented in two tables. Table 13a sets out the actual outturn data in respect

of the years 1994-95 to 1998-99 and an estimate of the likely outturn for the financial year 1999-2000. Estimates of the current financial year remain subject to some fluctuation, since there are uncertainties over the timing of payments and receipts in the second half of the UK's financial year.

Table 13b sets out the Government's latest view of the likely trend in the UK's financial transactions with EC Institutions for the financial years 2000-01 to 2001-02.

Table 13a

Cash payments and receipts (£ million)

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Estimated outturn
Gross payments (1)	6,892	9,211	9,278	8,603	10,507	9,379
Public sector receipts	-3,603	-3,783	-4,567	-4,472	-3,950	-3,950
UK Abatement	-1,648	-1,576	-2,418	-1,563	-2,447	-2,395
Net contributions to EC Budget (2)	1,641	3,852	2,293	2,567	4,111	3,035
Contributions to reserves and capital of the EIB	15	16	15	0	0	0
Grants received from European Coal and Steel Community	-42	-51	-27	-6	:	:
Payments to EC budget attributed to the aid programme (3)	-346	-446	-464	-408	-538	-455
Net payments to EC institutions (excluding Overseas Aid) (2)	1,268	3,370	1,817	2,153	3,572	2,580

Notes:

: Signifies existence of receipts of less than £0.5 million

1. Gross payment figures include Traditional Own Resources payments at 90%, the remaining 10% is retained by the UK to cover the costs of administering collection on behalf of the European Community.

2. Due to rounding, totals may not exactly correspond to the sum of individual items.

3. For domestic/public expenditure planning purposes, part of the UK's contribution to the Community budget is attributed to the overseas aid programme. The aid programme also includes payments to the European Development Fund, not included here.

Table 13b

Forecast of the trend in the UK's contributions (£ million) (1)

	2000-01 Plans	2001-02 Plans
Trended Net Contributions to European Community budget	3,325	3,350
Contributions to reserves and capital of the EIB	0	0
Grants received from European Coal and Steel Community	:	:
Payments to EC budget attributed to the aid programme (2)	-635	-893
Net payments to EC institutions (excluding Overseas Aid)	2,690	2,457

Notes:

: Signifies existence of receipts of less than £0.5 million

1. An exchange rate of 1.55 ecu to the pound has been assumed.

2. For domestic/public expenditure planning purposes, part of the UK's contribution to the Community budget is attributed to the overseas aid programme. The aid programme also includes payments to the European Development Fund, not included here.

13.7 European Investment Bank (EIB): Exceptional Re-payment

Tables 13a and 13b contain the contributions which the UK makes to the reserves and capital of the EIB. Based on a review of the Bank's requirements of own funds the Board of Governors unanimously agreed, during 1998-99, a distribution of 1 billion ECU to its members, as an exceptional re-payment, pro-rata of their contributions.

Table 13c Public Sector Receipts (other than UK abatement) from the Community Budget (£ million)

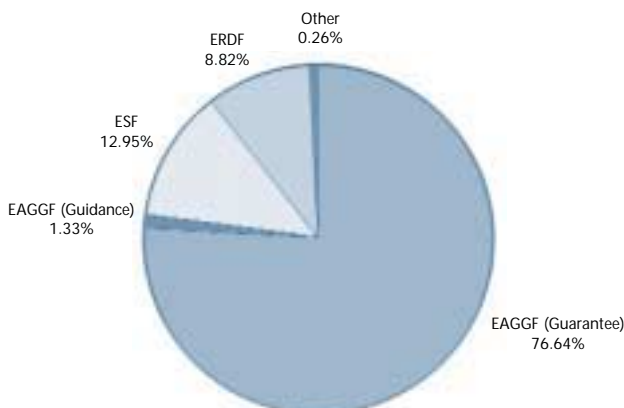
	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Estimated Outturn (1)
Agricultural Guarantee Fund	2,411	2,615	3,155	2,904	3,028	2,549
Agricultural Guidance Fund	66	23	39	51	52	101
Social Fund	496	709	733	867	511	816
Regional Development Fund	607	404	621	640	348	442
Other Receipts	22	32	19	11	10	43
Total (2)	3,603	3,783	4,567	4,472	3,950	3,950

Notes:

- 1 Estimate of potential outturn for receipts from the Community Budget at February 2000. This figure differs from the total for the departmental breakdown of receipts at Table 13d which are based on an estimate of expected outturn prepared by departments in November 1999.
- 2 Due to rounding, totals may not exactly correspond to the sum of individual items.

Chart 13a Distribution of UK Receipts in 1998-99

	1994-95	1995-96	1996-97	1997-98	1998-99
EAGGF (Guarantee)	2411	2615	3155	2904	3028
EAGGF (Guidance)	66	23	39	51	52
ESF	496	709	733	867	511
ERDF	607	404	621	640	348
Other	22	32	19	11	10



13.8 Comparison with Previous Forecasts 1999-2000

The latest estimate for 1999-2000, £2,580 million, compares to the PBR estimated outturn of £2,678 million and is smaller by £135 million compared to last year's Departmental Report. This reflects the difference between an average, and the expected actual value in respect of the year and also estimating changes reflecting later information about the 1999 and 2000 EC budgets and thus the level and timing of UK gross contributions to and abatement and receipts from these budgets.

13.9 Years 2000-01 and 2001-02

The latest trend forecast for future years is £2,690 million in 2000-01 and £2,457 million in 2001-02 compared to the PBR trend forecast of £2,595 million and £2,513 million respectively. The latest forecasts are, respectively, £136 million higher and £415 million lower compared to last year's Departmental Report.

The principal causes for the difference, in 2000-01, between the latest trend and last year's Departmental Report is an expected increase in Customs duties and differences in the timing of payments to the EC budget. The latest trend also includes an assumption of lower spending, in the medium term, for the Community following the Berlin European Council which is the principal reason for the lower trend forecast in 2001-02.

13.10 National Accounts

The way in which the UK's financial transactions with EC Institutions, in Annually Managed Expenditure, is related to the national accounts measure, Total Managed Expenditure, is described in the Public Expenditure Statistical Analyses (Cm 4601).

13.11 Relative Position Of The Member States

In 1998 the UK was one of 11 Member States which were net contributors according to figures released by the European Court of Auditors (ECA) in its Report on the 1998 EC budget. Germany was the largest net contributor, paying almost twice as much as any other Member State, followed by the UK and the Netherlands. Other significant net contributors in 1998 were Italy, France, Belgium, Sweden and Austria. The figures published by the ECA do not, however, allocate administrative expenditure between the Member States. Any allocation of administrative expenditure would likely benefit Luxembourg and Belgium more than other Member States, and thus significantly reduce their relative net contributions.

Chart 13b sets out both the net beneficiaries and the net contributors to the EC budget for 1997 and 1998, the last two years for which information from the ECA is available. The variation in the positions for the Member States reflects the consequences of the underspending for the two years and the

effect of fluctuations caused by the workings of the EC budget financing system. Chart 13c sets out the same information but on a per capita basis.

The EC budget was, up to 1998, denominated in European Currency Units (ECU). Accordingly, ECA figures are also prepared on an ECU basis. Charts 13b and 13c are thus also on an ECU basis. Due to the fluctuating value of sterling/ECU exchange rates over time, ECU comparisons for the difference between the outturn for the UK in 1997 and 1998 do not readily convert to sterling equivalents using a single exchange rate. With effect from 1 January 1999 the EC budget has been denominated in “euros”. The euro has parity with the ECU.

Some major differences which can be identified for the UK from the ECA figures for the two years are as follows:

- the abatement paid to the UK in 1997 (2,459 million ECU) was somewhat lower than the abatement paid in 1998 (3,170 million ECU).
- the UK’s contributions to the third and fourth resources (VAT and GNP-based contributions) were, in total, some 2,559 million ECU higher in 1998 than in 1997. This is in part due to the UK contributing to a significantly larger budget in 1998 than it did in 1997. There was also a substantially greater amount recovered in 1997 (due to 1996 EC budget underspending) than there was in 1998 (due to 1997 EC budget underspending).
- the level of the UK receipts identified in the 1997 Court of Auditor’s report amounted to some 7,092 million ECU, whereas in 1998 the level of the UK’s receipts are shown as some 6,878 million ECU.
- the UK received some 641 million ECU from the European Community in 1997 to correct for overpayments made in earlier years whereas in 1998 the UK paid some 1,274 million ECU to correct for underpayments in earlier years.

Chart 13b: Net receipts/contributions of Member States in 1997 and 1998 (million ecu)

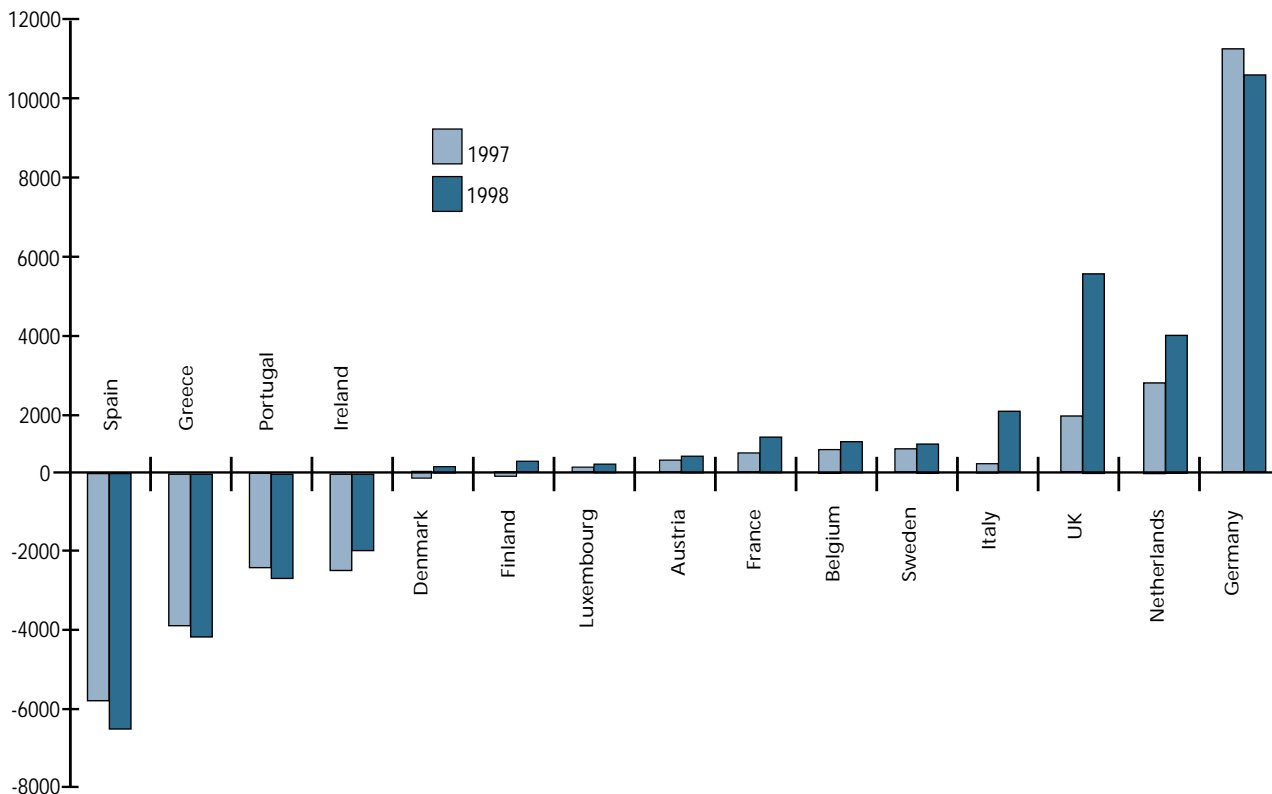
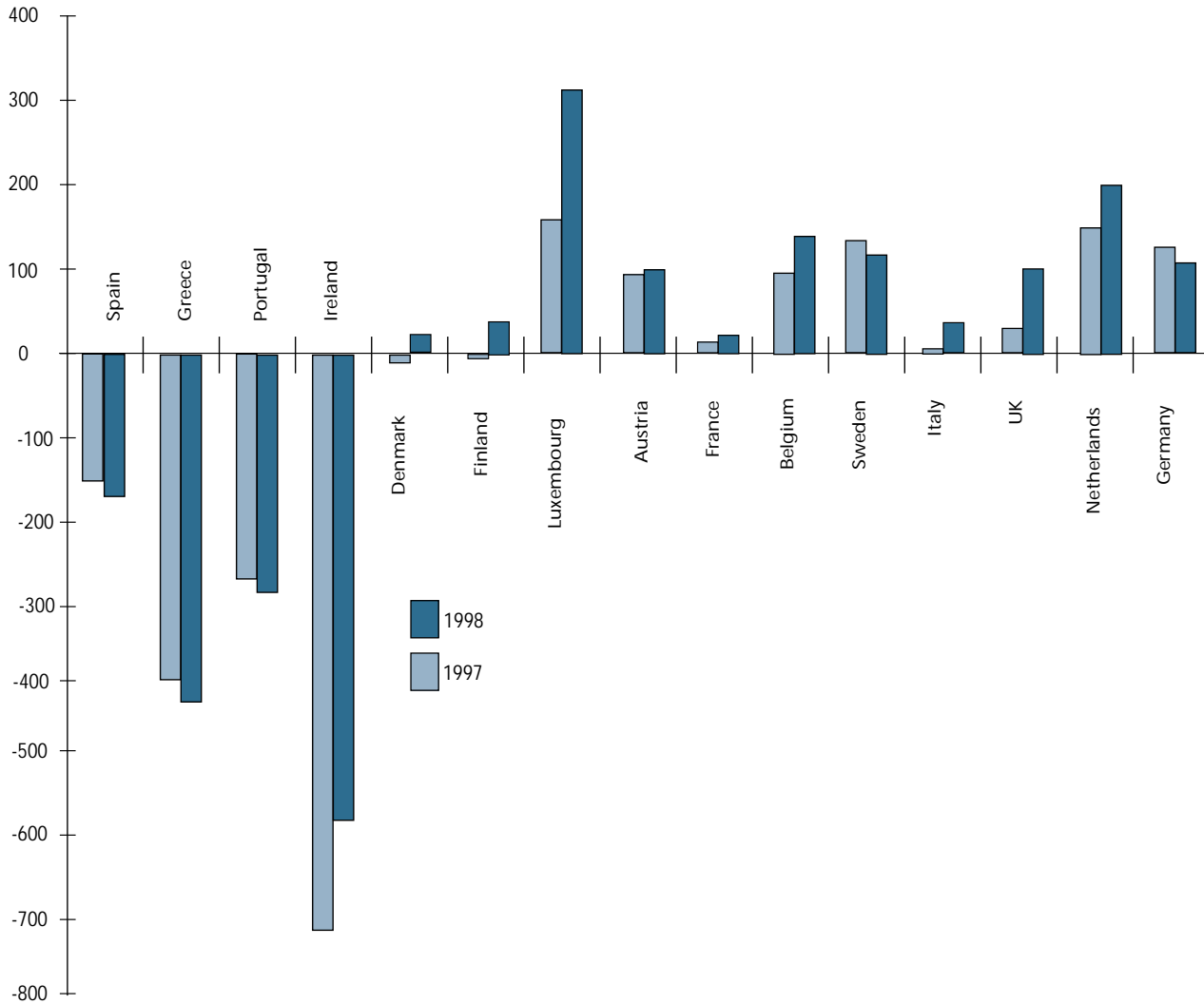


Chart 13c: Net receipts/contributions of Member States in 1997 and 1998 (per Capita) (ecu)



13.12 Bibliography

Further information about European Community finances can be found in:

Statement on the 1999 EC Budget and measures to counter fraud and financial mismanagement, The Stationery Office, Cm 4382;

Decision of the Council of the European Communities on the System of the Communities Own Resources, 31 October 1994, HMSO, Cm 2702.

Financing the Community, Treasury Bulletin, Winter 1992/93, HMSO.

Table 13d Receipts from European Community Institutions analysed by Department and Fund

£ million	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Est.O/turn	2000-01 Plans	2001-02 Plans
Min. of Agriculture, Fisheries & Food								
EAGGF #1 (Guarantee)	1	1	:	:	:	:	:	:
EAGGF (Guidance)	16	15	13	16	10	27	20	14
ERDF #2	:	:	:	2	1	1	1	1
FIFG #3	7	6	10	5	8	2	2	2
Other receipts	:	:	:	:	5	1	1	1
Forestry Commission								
EAGGF (Guidance)	0	0	0	0	1	:	:	:
ERDF	0	:	:	:	:	:	0	0
Intervention Board								
EAGGF (Guarantee)	2,411	2,610	3,136	3,411	3,296	2,648	2,927	3,031
EAGGF (Guidance) 50% Set Aside	0	0	0	0	0	0	0	0
Depreciation of existing stocks	0	0	0	0	0	0	0	0
Ministry of Defence								
ERDF	:	0	0	0	0	0	0	0
Other receipts	:	1	0	0	5	3	6	4
Department of the Environment, Transport and Regions								
EAGGF (Guidance)	0	1	0	0	0	0	0	0
ERDF	275	203	159	180	209	71	150	196
Other	12	9	10	36	24	27	34	39
Department of Health								
Other Receipts	:	0	0	0	0	0	0	0
Home Office								
Other Receipts	:	:	0	:	:	:	0	0
DFEE								
ERDF	15	13	18	18	18	6	13	17
ESF #4	375	428	507	610	406	550	485	455
Office of Fair Trading								
ESF	:	:	:	:	:	:	:	:
Office of National Statistics								
ESF	:	:	0	0	0	0	0	0
Other Receipts	0	1	1	1	1	1	1	1
Department for Culture, Media and Sport								
ERDF	0	6	23	45	55	26	51	67
Department of Trade & Industry								
ERDF	35	46	80	110	113	134	142	201
ESF	0	0	0	0	0	0	0	0
Other Receipts	4	1	:	:	:	:	:	:
Scottish Office								
EAGGF (Guidance) (incl. FIFG)	18	17	16	10	18	18	18	18
ERDF	80	85	88	105	99	121	109	119
ESF	57	52	66	89	93	112	65	49
Other Receipts	:	:	:	:	:	:	:	:
Welsh Office								
EAGGF (Guidance)	7	8	8	8	8	11	10	10
ERDF	53	39	20	39	33	43	52	48
ESF	9	14	5	9	8	41	7	2
FIFG	:	0	0	:	:	:	:	:
Other Receipts	:	:	0	0	0	0	0	0
Northern Ireland Office								
EAGGF (Guidance)	27	25	32	22	13	40	20	27
ERDF	58	83	199	61	116	122	149	96
ESF	71	12	81	69	15	112	83	61
FIFG	1	0	1	5	2	3	2	3
Other Receipts	:	:	:	:	:	:	:	:
Office of Science and Technology								
Other Receipts	16	13	12	15	11	10	9	8
Total Receipts from European Community Budget #5								
	3,550	3,689	4,486	4,569	4,569	4,132 #6	4,358	4,471
Receipts from ECSC								
Department of the Environment, Transport and the Regions	:	0	0	0	0	0	0	0
Department of Trade & Industry	42	51	27	6	:	:	:	:
Total Receipts from EC Institutions #5								
	3,592	3,740	4,513	4,874	4,570	4,133 #6	4,358	4,471

: Signifies existence of receipts of less than £0.5 million.

#1 European Agricultural Guidance and Guarantee Fund

#2 European Regional Development Fund

#3 Financial Instrument for Fisheries Guidance

#4 European Social Fund

#5 Because of changes in the amounts held in departmental suspense accounts, the total receipts in this Table may be different from the totals shown in Tables 13a and 13c.

#6 Estimate of expected outturn for the UK's receipts from the Community Budget prepared by departments in November 1999. As of February 2000, the central estimate of likely outturn is £3,950 million.

Annex A: Tables

TABLE 16.1 CASH PLANS

£ million

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 Plans	2001-02 Plans
HM Treasury Spending in Departmental Expenditure Limits (DEL)								
Central government spending								
Voted								
1A Central Treasury Administration	57	54	48	45	46	49	46	50
1B Debt Management Office					3	6	6	3
1C Agency agreement for the carrying out of insurance sponsorship and supervision	5	5	5	8	6	12	14	
1D Parliament and Privy Council	2	2	2	2	2	2	4	2
1E Other services	1	1	3	2	3	3	1	3
16A Repayments to the Contingencies Fund	#	#	#	#	#	#		
The Diana Princess of Wales Memorial Fund				3				
1F Provision of information to business about the euro					8	8	8	
1G Payments under the indemnity guarantee in respect of Paymaster					#	#	#	
1H Statistics Commission							1	1
2A UK Coinage	22	21	26	31	20	35	32	32
3A-C Office of Government Commerce	15	21	117	109	70	77	77	48
Total voted	101	105	201	200	158	192	189	138
Non-voted								
Parliament and Privy Council	14	15	15	15	15	15	16	16
Departmental Unallocated Provision						2	4	17
Bank of England services	25	23	22	18	13	13	13	12
Repayments to the Contingencies Fund						#	#	#
Total (non-voted)	40	38	37	33	28	30	32	46
Total central government spending	141	143	239	233	186	222	221	184
Customs and Excise Spending in Departmental Expenditure Limits (DEL)								
Central government spending								
Voted								
4A HM Customs and Excise: administration	889	862	858	864	867	938	883	907
Non-voted								
Departmental Unallocated Provision						1	1	1
Total government spending	889	862	858	864	867	939	884	908

TABLE 16.1 CASH PLANS (CONTINUED)

£ million

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 Plans	2001-02 Plans
Inland Revenue Spending in Departmental Expenditure Limits (DEL) Central government spending								
Voted								
5A Inland Revenue: administration	1,581	1,647	1,634	1,654	1,725	1,883	1,729	1,912
6A IRVO: administration						#	#	-9
Total voted	1,581	1,647	1,634	1,654	1,725	1,883	1,729	1,903
Non-voted								
Administration			-1	-1	-23	-19		
Valuation Office	-8	-3	-6	-13	-2	-10	-10	
Departmental Unallocated Provision							6	6
National Insurance Fund Administration								
Total (non-voted)	-8	-3	-7	-14	-24	-29	-4	6
Total central government spending	1,573	1,643	1,626	1,641	1,701	1,853	1,725	1,909
Inland Revenue main departmental programmes in Annually Managed Expenditure Central government spending								
Voted								
8A Contributions in lieu of rates	93	63	42	31	32	40	32	31
Total voted	93	63	42	31	32	40	32	31
Total central government spending	93	63	42	31	32	40	32	31
National Savings Spending in Departmental Expenditure Limits (DEL) Central government's spending								
Voted								
9A Administration	197	193	179	175	171	173	173	173
Total central government spending	197	193	179	175	171	173	173	173
Registry of Friendly Societies spending in Departmental Expenditure Limits (DEL) Central government spending								
Voted								
10A Administration	3	3	7	4	1	3	3	
Non-voted	#	#	-2	-1	-4			
Total central government spending	3	2	6	4	-3	3	3	

TABLE 16.1 CASH PLANS (CONTINUED)

£ million

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 Plans	2001-02 Plans
National Investment and Loans Office Spending in Departmental Expenditure Limits (DEL)								
Central government spending								
Voted								
11A Administration	#	1	#	#		#	#	#
Non-voted	-1	-1	-1	-1	-2			
Total central government spending	-1	-1	-1	-1	-2	#	#	#
Office of HM Paymaster General Spending in Departmental Expenditure Limits (DEL)								
Central government spending								
Voted								
Administration	#	1	2					
Non-voted	-2	-2	-2					
Total central government spending	-2	-1	1					
Office for National Statistics Spending in Departmental Expenditure Limits (DEL)								
Central government spending								
Voted								
12A Administration	93	103	108	96	97	103	133	180
12B Customer funded	#	#	3	-1	#	#	#	#
Invest to save						1	1	1
Total voted	93	103	110	95	97	104	134	181
Non-voted						1	3	6
Total central government spending	93	103	110	95	97	105	137	187
Government Actuary's Department Spending in Departmental Expenditure Limits (DEL)								
Central government spending								
Voted								
13A Administration	1	1	#	#	#	1	1	1
Non-voted	-1	#	#	#	#			
Total central government spending		#	#	#	#	1	1	1
Total Crown Estate Office main departmental programmes in Annually Managed Expenditure								
	1	2	2	2	2	2	2	2
Total Chancellor of the Exchequer's Departments Spending in Departmental Expenditure Limits								
	2,894	2,946	3,019	3,011	3,018	3,295	3,141	3,361
Total Chancellor of the Exchequer's main departmental programmes in Annually Managed Expenditure								
	94	65	44	32	34	42	34	33

TABLE 16.3 RUNNING COSTS

£ million

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 plans	2001-02 plans
HM Treasury								
Gross running costs:(1)								
Paybill	41	36	34	35	36	35		
Other	26	26	23	24	28	33		
Total running costs	67	62	57	59	64	69	66	59
Related receipts	-12	-12	-11	-11	-12	-15	-16	-3
Net expenditure	54	50	46	48	52	53	50	56
Gross Running Costs Limit(5)							65	
Office of Government Commerce								
Gross running costs:(1)								
Paybill	22	21	16	14	13	13		
Other	18	18	15	14	13	16		
Total running costs	41	39	31	28	26	29	47	31
Related receipts	-5	-3	-9	-14	-15	-19	-23	-19
Net expenditure	35	36	21	13	12	10	24	11
Gross Running Costs Limit(5)							24	
Customs and Excise(2)								
Gross running costs:(1)								
Paybill	549	543	548	553	569	581		
Other	203	210	198	206	207	230		
Total running costs	752	753	746	759	776	810	866	854
Related receipts	-4	-5	-12	-13	-13	-17	-14	-14
Net expenditure	748	748	734	746	763	794	852	840
Gross Running Costs Limit(5)							859	
Inland Revenue(2)								
Gross running costs:(1)								
Paybill	1,260	1,192	1,163	1,176	1,224	1,428		
Other	578	679	731	732	794	1,001		
Total running costs	1,838	1,871	1,894	1,908	2,018	2,429	2,442	2,423
Related receipts	-342	-328	-353	-334	-327	-588	-593	-552
Net expenditure	1,497	1,543	1,541	1,574	1,691	1,841	1,849	1,872
Gross Running Costs Limit(5)							2,206	
Running costs by control area:								
Net control area								
Valuation Office(2)								
Gross expenditure	182	170	153	153	147	144	144	144
Net expenditure	3	2	-7	4	1			-7
National Savings								
Gross running costs:(1)								
Paybill	90	85	79	75	75	8		
Other	104	106	100	101	95	172		
Total running costs	194	190	178	175	171	179	179	179
Related receipts	-1	-2	-3	-3	-1	-5	-5	-5
Net expenditure	193	188	176	172	170	174	174	174
Gross Running Costs Limit(5)							175	

TABLE 16.3 RUNNING COSTS (CONTINUED)

£ million

	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-2000 Outturn	2000-01 plans	2001-02 plans
Registry of Friendly Societies								
Gross running costs:(1)								
Paybill	5	5	5	5	4	2	2	
Other	3	3	2	2	3	1	1	
Total running costs	8	8	8	7	7	2	2	
Related receipts	-5	-5	-5	-4	-6	-6	-6	
Net expenditure	3	3	2	3	1	-3	-3	
Gross Running Costs Limit(5)							2	
National Investment and Loans Office								
Gross running costs:(1)								
Paybill	1	1	1	1	1	1		
Other	#	#	#	#	#	#		
Total running costs	2	1	1	1	1	2	2	2
Related receipts	-1	-1	-1	-2	-1	-1	-1	-1
Net expenditure	#	#	#	#		#	#	#
Gross Running Costs Limit(5)							2	
Paymaster(2)								
Gross running costs:(1)								
Paybill								
Other	13	14	13					
Total running costs	13	14	13					
Related receipts	-30	-28	-26					
Net expenditure	-17	-13	-13					
Running costs by control area:								
Net control area:								
Paymaster Agency								
Gross expenditure								
Net expenditure	-2	-1	#					
Office for National Statistics(2)								
Gross running costs:(1)								
Paybill	73	74	66	68	69	76		
Other	55	58	49	47	53	54		
Total running costs	128	133	115	115	123	131	169	216
Related receipts								
Net expenditure	128	133	115	115	123	131	169	216
Gross Running Costs Limit(5)							132	
Running costs by control area:								
Net Control Area								
Customer Funded Services								
Gross expenditure								
Net expenditure	#	#	2	-2	-1	#	#	#
Government Actuary's Department(3)								
Gross running costs:(1)								
Paybill	4	4	4	4	5	5		
Other	2	2	2	2	2	2		
Total running costs	6	6	6	6	7	8	8	8
Related receipts								
Net expenditure	6	6	6	6	7	8	8	8

(1) The gross figures are no longer net of any VAT refunds on contracted out services.

(2) A Next Steps Agency.

(3) Government Actuary's Department operates under net running costs control.

(4) Running costs related receipts from within the running costs provision of other government departments are now offset against the gross running costs limit.

(5) Only the gross running costs limit for 2000-01 is shown. See Chapter 2 of 2000 PESA for more information.

Table 16.4 Staff Numbers

		1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
		Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
HM Treasury (1) (Gross Control Area)	CS FTE's	1,817	1,551	1,405	1,393	1,429	1,433	1,467	1,471
	Overtime	55	36	30	36	43	38	38	38
	Casuals	24	34	35	31	38	55	46	46
	Total	1,896	1,621	1,470	1,460	1,510	1,526	1,551	1,555
Total HM Treasury		1,896	1,621	1,470	1,460	1,510	1,526	1,551	1,555
Customs and Excise	CS FTE's	24,832	23,536	22,932	23,321	23,064	22,449	22,032	21,629
	Overtime	1,300	1,280	1,180	1,100	1,025	967	967	967
	Casuals	596	615	546	531	291	321	313	307
	Total	26,728	25,431	24,658	24,952	24,380	23,737	23,312	22,903
Total Customs and Excise		26,728	25,431	24,658	24,952	24,380	23,737	23,312	22,903
Inland Revenue (2) (Gross Control Area)	CS FTE's	56,840	53,303	50,955	49,597	50,469	59,876	62,407	62,050
	Overtime	820	675	776	1,600	1,831	1,602	978	745
	Casuals	800	928	521	532	614	894	660	330
	Total	58,460	54,906	52,252	51,729	52,914	62,372	64,045	63,125
Valuation Office (Net Control Area)	CS FTE's	5,190	4,261	4,397	4,205	3,967	3,957	3,910	3,719
	Overtime	100	25	27	10	15	25	10	10
	Casuals	810	821	109	50	59	33	239	116
	Total	6,100	5,107	4,533	4,265	4,041	4,015	4,159	3,845
Total Inland Revenue		64,560	60,013	56,785	55,994	56,955	66,387	68,204	66,970
National Savings	CS FTE's	5,586	5,034	4,545	4,186	3,583	114	132	133
	Overtime	61	66	75	55	88	2	2	2
	Casuals	182	70	53	65	19	7	8	8
	Total	5,829	5,170	4,673	4,306	3,690	123	142	143
Total National Savings		5,829	5,170	4,673	4,306	3,690	123	142	143
Registry of Friendly Societies	CS FTE's	175	167	165	158	118	54	56	-
	Overtime	5	4	3	3	2	0	0	-
	Casuals	3	1	1	0	4	1	0	-
	Total	183	172	169	161	124	55	56	-
Total RFS		183	172	169	161	124	55	56	-
National Investment and Loans Office	CS FTE's	36	34	33	37	36	35	33	33
	Overtime	0	0	0	0	1	1	1	1
	Casuals	0	0	0	0	0	0	0	0
	Total	36	34	33	37	37	36	34	34
Total NILO		36	34	33	37	37	36	34	34
Office of Paymaster General (3)	CS FTE's	721	624	525	-	-	-	-	-
	Overtime	18	14	11	-	-	-	-	-
	Casuals	48	42	22	-	-	-	-	-
	Total	787	680	558	-	-	-	-	-
Total OPG		787	680	558	-	-	-	-	-
Office for National Statistics (Gross Control area)	CS FTE's	2,736	2,769	2,684	2,595	2,688	2,562	2,715	2,718
	Overtime	42	41	2	30	8	10	0	0
	Casuals	232	104	182	122	102	209	0	0
	Total	3,010	2,914	2,868	2,747	2,798	2,781	2,715	2,718
Office for National Statistics (Net Control area)	CS FTE's	550	509	382	410	364	350	373	373
	Overtime	0	0	14	0	1	1	0	0
	Casuals	23	5	5	0	1	23	0	0
	Total	573	514	401	410	366	374	373	373
Total ONS		3,583	3,428	3,269	3,157	3,164	3,155	3,088	3,091
Government Actuary's Department	CS FTE's	78	83	78	81	82	97	105	-
	Overtime	0	0	0	0	0	0	0	-
	Casuals	3	1	5	3	9	7	6	-
	Total	81	84	83	84	91	104	111	-
Total GAD		81	84	83	84	91	104	111	-
Royal Mint Crown Estate Office	CS FTE's	959	988	987	0	961	1,020	1,010	1,010
	CS FTE's	27	24	23	-	-	-	-	-

(1) Includes Office of Government Commerce.

(2) Includes Contributions Agency from 1999-2000.

(3) The Office of HM Paymaster General was privatised on 31 March 1997.

Table 16.5 Reconciliation between cash plans and estimates

Emillion

	1998-99 outturn	1999-00 Estimated outturn	2000-01 Plans
Provision within Departmental Spending in Departmental Expenditure Limits (as in cash plans table)	3,141	3,606	3,464
Less non-Voted expenditure within Departmental Expenditure Limits	121	314	355
Total Voted Expenditure within Departmental Spending in Departmental Expenditure Limits	3,020	3,293	3,109
Provision within Welfare to Work Programmes in Departmental Expenditure Limits (as in cash plans table)	34	42	34
Less non-Voted expenditure within Welfare to Work programmes in Departmental Limits			
Total Voted within Welfare to Work Programmes in Departmental Expenditure Limits	34	42	34
Voted Provision within Departmental Programmes in Annually Managed Expenditure	-37	-54	-27
Less non-voted expenditure within Main Departmental Programmes within Annually Managed Expenditure	-37	-37	-25
Total Voted Expenditure within main Departmental Programmes in Annually Managed Expenditure		-17	-2
Voted Expenditure outside Departmental Expenditure Limits and Main Departmental Programmes in Annually Managed Expenditure			
HM Treasury Privatisation programme: sale of shares	#	#	#
Total HM Treasury	#	#	#
Inland Revenue Payment in lieu of tax	141	385	257
Total Inland Revenue	141	385	257
Office for National Statistics EC Receipts	-1	-1	-1
Total Office for National Statistics	-1	-1	-1
National Savings National Savings Stock Register outstanding liabilities	#	6	
Total National Savings	#	6	
Total Voted Expenditure Outside Departmental Expenditure Limits Main Departmental Programmes in Annually Managed Expenditure	141	390	256
Total Voted Expenditure	3,195	3,707	3,397

Annex A