



HM TREASURY

DEPARTMENTAL REPORT

April 2004

Cm 6222

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HM TREASURY

Departmental Report 2004

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

April 2004

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Foreword

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

The Government aims to build a strong and stable economy, with opportunity and security for all – a Britain of economic strength and social justice. And in working towards this aim, we have this year continued to make significant progress on our long-term economic goals:

- **Maintaining economic stability** - we have created a strong platform of economic stability so that, despite the recent global downturn, Britain is enjoying its longest period of sustained economic growth for more than 200 years.
- **Increasing employment opportunity for all** - 1.8 million new jobs have been created since 1997, the highest level of employment for a generation.
- **Creating a fairer society** - by October 2004 the poorest pensioner households will be, on average, £1750 a year better off in real terms compared to 1997, and families with children in the poorest fifth of the population will be on average £3,000 a year better off in real terms.
- **Investing to build world-class public services** - our hospitals now have over 55,000 more nurses and 15,000 more doctors and our schools have 20,000 more teachers and 80,000 more classroom assistants than in 1997.

The Spending Review in summer 2004 will set out our plans for further investment in public services alongside ambitious targets for delivery across the whole of the public sector. We will implement the recommendations of the Lyons review of public sector relocation and the merger of the revenue departments following the O'Donnell review. And within the Spending Review we will ensure that all departments implement measures to improve their efficiency, including capping their administration costs at or below the 2005-06 nominal level for the remainder of the 2004 Spending Review period, to release resources to front line public services.

Delivering the achievements set out in this report is possible because of the continued dedication and commitment of the staff of the Treasury, our executive agencies and our offices. On behalf of all the Treasury Ministers, I would like to thank all for their continued hard work.



Gordon Brown



EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Aims and Objectives

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

In order to achieve this aim, the Treasury has 10 objectives. These are listed below and can be broadly categorised under four main headings:

Maintaining Stability at Home and Overseas

- Objective 1:** Maintaining a stable macroeconomic framework with low inflation.
- Objective 2:** Maintaining sound public finances in accordance with the Code for Fiscal Stability.
- Objective 3:** Promoting UK economic prospects by pursuing increased productivity and efficiency in the European Union, international financial stability and increased global prosperity, including especially protecting the most vulnerable.

Raising Trend Growth

- Objective 4:** Increasing the productivity of the economy.
- Objective 5:** Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest.

Promoting Fairness and Opportunity for All

- Objective 6:** Expanding economic and employment opportunities for all.
- Objective 7:** Promoting a fair and efficient tax and benefit system with incentives to work, save and invest.
- Objective 10¹:** To protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies.

Delivering High Quality Public Services

- Objective 8:** Improving the quality and cost effectiveness of public services.
- Objective 9:** Achieving a high standard of regularity, propriety and accountability in public finances.

¹Objectives are not shown here in numerical order, but grouped by theme. See also page 11

Achievements in 2003-04

2003-04 has been another busy and successful year for the Treasury. The economy has continued to perform well. Interest rates have been at their lowest levels for 40 years, inflation is at its lowest level for 30 years. The UK economy has grown uninterrupted, avoiding the recession that has hit so many other countries.

The Treasury is on course to meet all but one of its ten SR2002 PSA targets. The main achievements in the delivery of the Treasury's objectives in 2003-04 to date have been as follows:

Maintaining Stability at Home and Overseas

- inflation, as measured by the Retail Prices Index excluding mortgage interest payments, remained close to target. A new inflation target based on the Consumer Prices Index was set in the 2003 Pre-Budget Report, and to date this change has had little, if any, impact on financial market volatility;
- the fiscal rules² have continued to be met: public sector net debt has been 33.2 per cent of GDP, well below the 40 per cent ceiling, and the current budget is expected to remain in surplus throughout the current economic cycle;
- the Treasury has effectively managed the financial consequences of military action and reconstruction in Iraq;
- the assessment of the five economic tests for joining the European single currency was completed in June 2003. This highly comprehensive and rigorous assessment has been accepted as authoritative in all quarters;
- good progress continues to be made in Europe on the case for structural reform, tax competition, reform of EU regional policy and a prudent interpretation of the Stability and Growth Pact, and further progress has been made in strengthening support for the International Finance Facility; and
- the Treasury has launched and published the interim and final reports of David Miles' review of mortgage finance and Kate Barker's review of housing supply.

²For more information on the fiscal rules, please see chapter 2 of this report.

Raising Trend Growth

- productivity continues to improve, and the gap with Germany has now closed entirely;
- the Budget 2004 and Pre-Budget Report 2003 contained measures to promote further the enterprise agenda, and the Treasury organised a major international conference on enterprise in January 2004 to promote and take forward the Government's pro-enterprise agenda;
- in Budget 2004, the 2004 Spending Review Settlement for education was announced early. Spending on education in England will grow from £56.5 billion to £63.9 billion between 2005-06 and 2007-08, a real annual average rate of increase of 4.4 per cent. UK education spending is forecast to rise to 5.6 per cent of GDP by 2007-08;
- in January 2004, the Treasury announced a ten-year investment framework for science and innovation, as part of the 2004 Spending Review, committing to grow public investment in the science base faster than the trend rate of GDP growth over the next Spending Review period;
- in November 2003 the Treasury announced a two-year review of the Financial Services and Markets Act 2000 (FSMA) to refine further the legislative and regulatory framework;
- in March 2004, Christopher Allsopp published the Final Report of his review of the regional information and statistical framework needed to support the Government's objectives of promoting economic growth in all regions; and
- in December 2003, Richard Lambert published the final report of his review of university/business links.

Promoting Fairness and Opportunity for All

- further steps were taken in the Budget and Pre-Budget Report to tackle remaining pockets of unemployment;
- the Treasury successfully introduced the Child Trust Funds Bill in November 2003 and draft regulations were published in February 2004;
- the Government is ready to legislate in Finance Bill 2004 to implement the simplified tax regime for pensions in April 2006; and
- the Government has announced that from April 2006, the threshold above which savings reduce eligibility for Income Support, Jobseeker's Allowance, Housing Benefit and Council Tax Benefit, will be raised from £3,000 to £6,000.

Delivering High Quality Public Services

- Sir Michael Lyons' review of public sector relocation reported in March 2004, and Sir Peter Gershon's review of public sector efficiency informed Budget 2004;

- significant preparations have been undertaken for the next spending review, due to be concluded in Summer 2004; and
- alongside the 2004 Budget, the Treasury published Gus O'Donnell's review of the best organisational arrangements for the Revenue Departments (the Inland Revenue and HM Customs and Excise). The review recommended the integration of the two Revenue Departments into a new single department to offer improved customer service, and that the Treasury take the lead on strategic policy development. The Government accepted the recommendations of the review, and the process of implementation is underway.

Treasury Corporate

The Treasury is heavily dependent for its success on a high quality, well-motivated workforce who can work effectively with and through others. We are proud that we have such people and that the great majority of them would recommend the Treasury as a good place to work.

We nevertheless aim for continuous improvement in everything that we do. We have an internal change programme, "Building on Success", with a series of projects designed to support our HR strategy, promote effective stakeholder relations, and ensure that our resources are deployed to maximum effect. These themes are fully consistent with the principles of wider civil service reform and public sector delivery.

Challenges and Priorities for 2004-05

On international issues, 2004-05 is likely to be dominated by the UK's twin presidencies in 2005: of the G7 for the year as a whole and of the EU in the second half of the year. Although these fall predominantly in 2005-06, the department will need to devote resources to this area in 2004-05 as the preparation for the presidencies intensifies. Important policy themes on the EU side are likely to be the ongoing debates on structural weaknesses in the EU economy and the future of the Growth and Stability Pact, the conclusion of discussion on EU future financing in 2005, and ongoing discussion surrounding the EU constitution. For non-EU international issues, aside from the UK G7 Presidency, the big event for the department in 2004-05 will be the expected handover of power back to the Iraqi people later in 2004.

Domestically, the outlook for the UK economy remains favourable compared to other G7 countries. The Government will continue its drive to improve the productivity performance of the economy.

The 2004 Budget announced that the Government will work with the financial services industry to bring forward specific proposals in summer 2004 on reducing the problem of financial exclusion and that it is looking to the sector to build on current momentum on reinvesting unclaimed assets into society.

The Government will continue to develop proposals for tax reforms in a number of areas, in consultation with business and other interested parties; including corporate tax, property investment, the distinctions in the tax system between owner-managers and the self-employed, the taxation of gambling and residence and domicile rules. It will also continue to take further steps as necessary to improve compliance with the tax system, including by closing specific

loopholes. However, a key priority will be the implementation of the recommendations of the O'Donnell review³.

The major planned domestic policy event for 2004-05 will be the conclusion of the Spending Review in the Summer of 2004. The review will take further steps to forward the Government's aim to strengthen the economy, build a fairer society and deliver better public services. It will set ambitious targets for delivery across the whole of the public sector and take steps to improve the responsiveness of public services to local and personal needs. Public sector reform will continue to be an important issue for the department, not just in the context of the Spending Review but for the period thereafter.

Internally, the Treasury will maintain its programme of improvements to work better together and with, and through, other organisations as it implements the recommendations of Sir Peter Gershon's efficiency review and Lyons' review on public sector relocations.

³See also Chapter 4 of this report, and the Treasury website at <http://www.hm-treasury.gov.uk>