



## INTRODUCTION

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Aims and objectives

Ministerial Responsibilities

Departmental Structure

## Introduction

**1.1** This report is an account of the Treasury's use of resources in 2003-2004. The Treasury's 2002 Public Service Agreement (PSA) covering the period 2003-06 sets out an aim and objectives for which those resources were allocated, and targets for measuring progress towards achieving the aim and objectives. This report focuses on how these targets are being achieved within the agreed resources. The report also highlights planned activities for the coming financial year.

**1.2** This report also contains a summary of the performance of the Treasury's offices: the Debt Management Office (DMO) and the Office of Government Commerce (OGC). More information on their objectives and performance can be found on their websites at: DMO [www.dmo.gov.uk](http://www.dmo.gov.uk) and OGC [www.ogc.gov.uk](http://www.ogc.gov.uk)

**1.3** The 2002 Spending Review (SR2002) set new plans for public spending for 2003-2006, and modified the Treasury's aim and objectives to reflect the Government's overall commitment to sustainable development. The revised aim and objectives are set out in the Treasury's PSA<sup>1</sup>. The first assessment of the Treasury's performance against these was given in the 2003 Autumn Performance Report, an update is given in Annex A of this report. The objectives for SR2002 and the lead directorates within the Treasury responsible for each objective are set out on page 11 of this report.

**1.4** There are also two previous PSAs with outstanding targets. As the SR2002 PSA targets in most cases left unchanged, or reinforced and refined, targets set under the 2000 Spending Review (SR2000), the reporting combines these targets. For ease of reference, a table in Annex A demonstrates how the SR2002 targets map onto the SR2000 targets. Outstanding targets from the 1998 Comprehensive Spending Review are separately reported in Annex A.

**1.5** In SR2000 and CSR1998, each of the Treasury's objectives had at least one PSA target and a Performance Indicator (PI) to measure progress. Objectives cover the full range of departmental activity over the medium term, whereas PSA targets identify the specific priorities that Government aims to achieve in order to measure progress towards the objectives in the three year time frame covered by the spending plans. In SR2002, seven of the Treasury's objectives had related PSA targets. Some of its targets are short term, where a significant change can be seen over a relatively short period of time. Some are longer term, where change is less obvious in the short term and progress needs to be assessed over a longer period.

**1.6** Each PSA target is underpinned by a Technical Note, which sets out how the target is measured, how success is defined, the sources of the relevant data, and any other relevant information such as geographic or demographic coverage. Further information on the Technical Note is available on the Treasury's website<sup>1</sup>.

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<sup>1</sup><http://www.hm-treasury.gov.uk/technicalnote>

1.7 As part of SR2000, the Treasury also published a Service Delivery Agreement (SDA) explaining how it will deliver the high level targets set out in the PSAs, and how it will modernise and reform itself to get better value for money in achieving them. These SDA targets were further developed during SR2002. An update on progress against these SDA targets is also given in Annex A.

### Delivery

1.8 To ensure that the achievement of the Treasury's PSA targets is planned for thoroughly, and that progress is systematically monitored, it has established similar arrangements for delivery to those in place in other departments. Each target has an owner at Managing Director level or above, who is responsible for ensuring delivery plans are in place and for monitoring progress against them.

### Governance

1.9 The Treasury is governed by the Treasury Management Board (TMB), whose membership is made up of the Permanent Secretary, the Managing Directors of each directorate, two non-executive directors: Sir Peter Gershon, Chief Executive of OGC, and Margaret Exley, Chairman of Mercer Delta Consulting; and Ed Balls, the Chief Economic Advisor to the Treasury. TMB meets formally on a monthly basis, although there are interim weekly meetings of the Managing Directors group. The Board has clear aims and objectives, maintains its own high-level risk register which is reviewed at each meeting, and is a key driver of change in the Treasury. The senior management structure of the Treasury is set out on page 14 of this report.

### Performance information

1.10 A summary of the current position on the Treasury's PSA and SDA targets is set out in Annex A to this report:

- Annex A1 – Maps SR2002 PSA targets (2003-06) to SR2000 PSA targets (2001-04);
- Annex A2 – Combines performance against SR2002 PSA targets and SR2000 PSA targets, along with associated SDA targets;
- Annex A3 – Maps SR2002 Corporate SDA targets to SR2000 SDA targets;
- Annex A4 – Combines performance against SR2002 Corporate SDA targets and SR2000 SDA targets;
- Annex A5 - shows performance against outstanding CSR1998 PSA targets (1999-2002), addressing those PSA targets whose final outturns have not previously been published.

Standard terminology in line with Treasury central guidance to departments has been adopted when reporting against all targets. For final assessments, the terms used are:

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

For interim assessments of those targets yet to reach their completion date, the terms used are:

TERM	DEFINITION
Met early	The target has been met ahead of schedule.
Met - ongoing*	The target has been met in the reporting period, but is still live and measured on an ongoing basis.
Ahead	Progress is exceeding plans and expectations
On course	Progress is in line with plans and expectations.
Slippage	Progress slower than expected.
Not yet assessed	A new target for which data are not yet available.

## HM TREASURY'S AIM AND OBJECTIVES - 2002 SPENDING REVIEW

The overall aim of the Treasury for the SR2002 period (2003-2006) 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.**

**Table 1.1** HM Treasury's objectives (2001-04)

OBJECTIVE	LEAD DIRECTORATE
<b>Maintaining stability at home and overseas</b>	
Maintaining a stable macroeconomic framework with low inflation (Objective I)	Macroeconomic Policy and International Finance
Maintaining sound public finances in accordance with the Code for Fiscal Stability (Objective II)	Budget and Public and Finances
Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable (Objective III)	Macroeconomic Policy and International Finance
<b>Raising Trend Growth</b>	
Increasing the productivity of the economy (Objective IV)	Finance, Regulation and Industry
Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest (Objective V)	Finance, Regulation and Industry
<b>Promoting fairness and opportunity for all</b>	
Expanding economic and employment opportunities for all (Objective VI)	Budget and Public Finances
Promoting a fair and efficient tax and benefit system with incentives to work, save and invest (Objective VII)	Budget and Public Finances
To protect and the improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies (Objective X)	Joint lead between Budget and Public Finances and Public Services Directorates
<b>Delivering high quality public services</b>	
Improving the quality and effectiveness of public service (Objective VIII)	Public Services
Achieving a high standard of regularity, propriety and accountability in public finances (Objective IX)	Financial Management, Reporting and Audit

## MINISTERIAL RESPONSIBILITIES

The Chancellor of the Exchequer: the Rt Hon Gordon Brown, MP has overall responsibility for the work of the Treasury. He is supported by the Chief Secretary to the Treasury: the Rt Hon Paul Boateng, MP, the Paymaster General: Rt Hon Dawn Primarolo, MP, the Financial Secretary: Ruth Kelly, MP, and the Economic Secretary: John Healey, MP.



CHANCELLOR OF THE EXCHEQUER:  
RT HON GORDON BROWN, MP

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



CHIEF SECRETARY TO THE TREASURY:  
RT HON PAUL BOATENG, MP

- Public expenditure planning and control (including local authorities and nationalised industries finance);
- Value for money in the public services, including Public Service Agreements (PSAs);
- Departmental Investment Strategies including Capital Modernisation Fund and Invest to Save budget;
- Public/Private Partnerships including Private Finance Initiative, and Partnerships UK;
- Responsibility for the Office of Government Commerce and procurement policy;
- Public sector pay;
- Welfare reform;
- Devolution;
- Strategic oversight of banking, financial services and insurance; and
- Resource Accounting and Budgeting.



PAYMASTER GENERAL: RT HON  
DAWN PRIMAROLO, MP

- Strategic oversight of taxation as a whole, including overall responsibility for the Finance Bill, closer working between Inland Revenue and Customs and Excise (including with other departments), and European and international tax issues;
- Departmental Minister for Inland Revenue and the Valuation Office;
- Personal taxation (except company car tax, savings and pensions), national insurance contributions and tax credits;
- Direct business taxation and tax aspects of the enterprise agenda, including: corporation tax, North Sea taxation, share schemes, small firms and venture capital;
- Capital Gains Tax;
- Inheritance Tax;
- Treasury interest in childcare issues;
- Regulatory Reform Minister for the Chancellor's departments; and
- Welfare Reform Group (welfare fraud).



FINANCIAL SECRETARY TO THE  
TREASURY: RUTH KELLY, MP

- Banking, financial services and insurance, and the Financial Services Authority;
- Support to the Chief Secretary in his strategic oversight of banking, financial services and insurance;
- Financial services tax issues, including ISAs, taxation of savings, Stamp Duty, Insurance Premium Tax and pensions;
- Foreign exchange reserves and debt management policy;
- Support to the Chancellor on EU issues;
- EMU business preparations;
- Economic reform in Europe;
- Responsibility for National Savings, the Debt Management Office, Office for National Statistics, Royal Mint and the Government Actuary's Department;
- Personal savings policy;
- Support to the Chief Secretary on public spending issues (including Parliamentary financial business, Public Accounts Committee, National Audit Office and general accountancy issues);
- Support to the Paymaster General on the Finance Bill; and
- Departmental Minister for HM Treasury.



ECONOMIC SECRETARY TO THE  
TREASURY: JOHN HEALEY, MP

- Departmental Minister for Customs and Excise;
- VAT; alcohol and tobacco duties; betting and gaming taxation;
- Environmental issues;
- Environmental taxes (climate change levy, aggregates levy, landfill tax);
- Transport taxes (road fuel and other mineral oil duties, taxation of company cars, vehicle excise duty, air passenger duty);
- Urban regeneration;
- Productivity and enterprise (working with Paymaster General on tax issues);
- Competition and deregulation policy;
- Science, research and development;
- Welfare to Work and social exclusion issues;
- Charities and charity taxation;
- Support to the Chancellor on international issues;
- Support to the Chief Secretary on public spending issues and selected Cabinet Committees; and
- Support to the Paymaster General on the Finance Bill.

**PERMANENT SECRETARY  
GUS O'DONNELL**

Mark Bowman (MIN)  
Damian McBride (COM)  
Tamara Finkelstein

Ministerial Support  
Communications & Strategy  
Permanent Secretary's Strategy Team

**BUDGET AND PUBLIC FINANCES (BPF)**

**NICK STERN**

**DAVE RAMSDEN**

Budget Coordination (BUD)	Tom Josephs
Environmental & Transport Tax (ET)	Paul O'Sullivan
EU & International Tax (EUIT)	David Richardson
Public Sector Finances (PSF)	Graham Parker
Revenue Departments (RD)	Peter Short
Tax Policy (TP)	Andrew Lewis
Policy Project Change (PPC)	Craig Lester

**NICHOLAS HOLGATE**

Labour Market Policy (LMP)	Alison Cottrell
Pensions & Savings (PS)	Vacant
Work Incentives, Poverty Analysis (WIPA)	Helen John

Economics in Government (EG)	Sue Holloway
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**CORPORATE SERVICES AND DEVELOPMENT (CSD)**

**HILARY DOUGLAS**

**HILARY DOUGLAS**

Finance (F)	Louise Tulett
Facilities Contracts Management (FCM)	Paul Pegler
Information Systems (IS)	Bernadette Cass
Human Resources (HR)	Chris Pearson
Learning Skills & Development (LSD)	Sally Sheen
Treasury Change & Performance Unit (TCP)	Sylvia Thomson
HR Transformation	Mel Madeley

**GOVERNMENT FINANCIAL MANAGEMENT (GFM)**

**SIR ANDREW LIKIERMAN**

**BRIAN GLICKSMAN**

Assurance, Control & Risk (ACR)	Chris Butler
Risk Support Team (RST)	Hugh Pullinger
Treasury Officer of Accounts (TOA)	Rob Molan

Central Accountancy (CA)	David Loweth
Finance Professionalism (FP)	Mal Singh
Treasury Internal Audit (TIA)	Ross Fraser
Whole of Government Accounts (WGA)	Ian Carruthers
Exchequer Funds & Accounts (EFA)	Ian Taylor

# TREASURY SENIOR MANAGEMENT

## FINANCE REGULATION AND INDUSTRY (FRI)

### JAMES SASSOON

#### PHIL WYNN OWEN

General Insurance, Mutuals & Inclusion (GIMI)	Sue Catchpole
Savings & Investment Products (SIP)	Paul Kirkman
Capital Markets & Governance (CMG)	David Lawton
Financial Stability & Regulatory Policy (FSRP)	Paul Mills
European & International Financial Services (EIFS)	Clive Maxwell
Financial Systems & International Standards (FSIS)	Lucy Makinson

#### JOHN KINGMAN

Enterprise (ENT)	Richard Price
Science & Industry (SI)	Daniel Storey
Competition & Economic Regulation (CER)	Sam Beckett
Productivity & Structural Reform (PROD)	Jitinder Kohli
Corporate & Private Finance (CPF)	Oliver Robbins

Private Finance Unit	Geoffrey Spence
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## MACROECONOMIC POLICY AND INTERNATIONAL FINANCE (MPIF)

### JON CUNLIFFE

#### SIMON BROOKS

Economic Assessment (EA)	Chris Kelly
Fiscal & Macroeconomic Policy (FMP)	Robert Woods

#### GEOFF LLOYD

EU Coordination & Strategy (EUCS)	Stewart James
European Economic Reform (EER)	Paul Rankin
European Union Finance (EUf)	Chris Austin

#### STEPHEN PICKFORD

Country & Economic Policy (CEP)	Andrew Kilpatrick
Global Policy Institutions (GPI)	Jonathan Ockenden
International Debt & Capital Markets (IDC)	Harold Freeman
International Poverty Reduction (IPR)	Beverley Warmington

#### SUE OWEN

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EU Preparations Unit (EPU)	Hilary Thompson
Economic & Monetary Union (EMU)	Nick Joicey
EU Countries Unit (EUCU)	Christopher Scicluna

#### TOM SCHOLAR

UK Director at the IMF and World Bank & Economic Minister at the British Embassy

## PUBLIC SERVICES (PSD)

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Performance & Efficiency Team (PET)	Michael Ellam
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General Expenditure Policy (GEP)	Daniel Oppenheimer
Defence, Diplomacy & Intelligence (DDI)	John Dodds
Public Service Pensions (PSP)	David Deaton

#### ANITA CHARLESWORTH

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Health (H)	John Hall
Voluntary Community Sector (VCS)	Pat Samuel
Home, Legal & Community (HLC)	Julian Kelly

#### RAY SHOSTAK

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Transport (T)	Lewis Atter
Devolved Countries & Regions (DCR)	Ros Dunn
Housing & Urban (HU)	James Bowler
Environment, Food & Rural Affairs (EFRA)	Sarah Mullen & Mridul Brivati

#### JOE GRICE

Work Innovation & Reward (WIR)	Andy Graham
Public Service Delivery Analysis (PSDA)	Julie Fry & Rebecca Lawrence





MAINTAINING STABILITY AT HOME  
AND OVERSEAS

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## OBJECTIVE I: To maintain a stable macroeconomic framework with low inflation

### Performance against target

2.1 SR2002 PSA target 2 relates directly to this objective, and states that:

- inflation is to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent CPI).

2.2 This reflects the change to the measure of the inflation target announced by the Chancellor on 10 December 2003. The new target (which has applied from the day of the announcement) is 2 per cent for the 12-month increase in the Consumer Prices Index (CPI). The rate for the new target is 0.5 percentage point lower than the previous target, because of differences in the way that CPI and RPIX inflation are measured.

2.3 From April to November 2003, the inflation target was 2.5 per cent for the 12-month increase in the Retail Prices Index, excluding mortgage interest payments (RPIX). During this period, RPIX inflation was, on average, just above target, ranging from 2.5 to 3 per cent. Since December, CPI inflation has ranged between 1.1 to 1.4 per cent, as illustrated in table 2.1.

	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04
RPIX	<b>3</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.5</b>	2.6	2.4	2.3	2.1
CPI	1.5	1.2	1.1	1.3	1.4	1.4	1.4	1.3	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>

2.4 The data highlighted in bold represent the relevant indicator for the Monetary Policy Committee's (MPC's) target at that time.

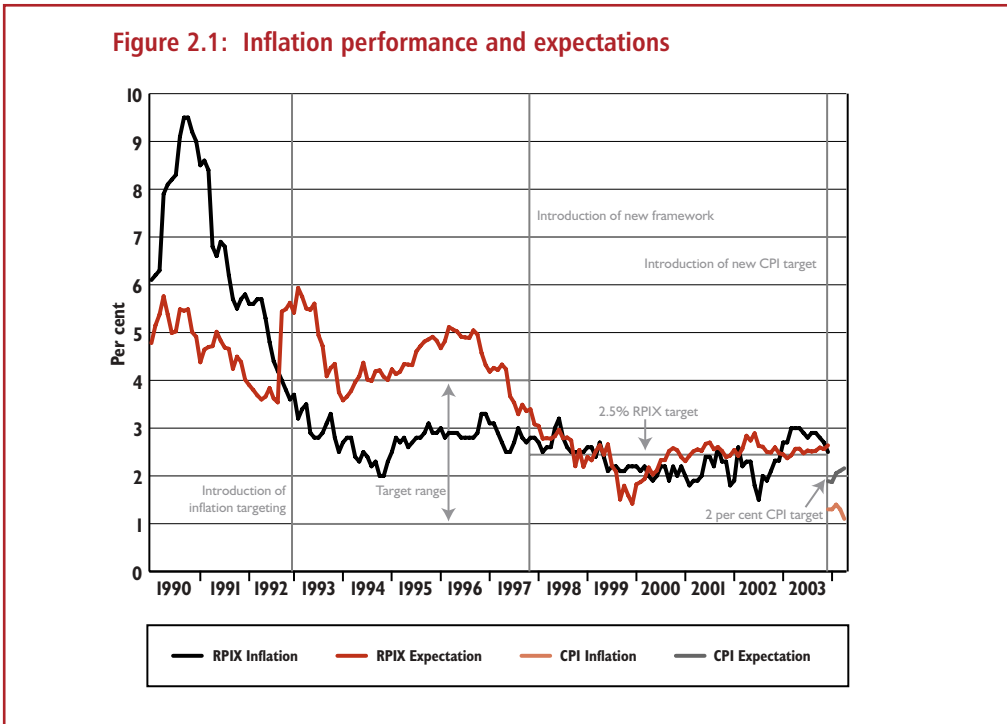
### Delivery

2.5 The Treasury seeks to deliver Objective I by:

- setting a stable and prudent macroeconomic framework that fosters economic stability and reduces the variability of output and inflation, and by increasing productivity;
- setting clear, long-term policy objectives; and
- following predictable, well understood procedural rules for fiscal and monetary policy making.

**Achievements**

**2.6** Inflation has remained within one percentage point of the target since May 1997. Inflation is expected to remain close to target in the future, with market expectations of inflation 10 years ahead remaining close to the new CPI target of 2 per cent, as illustrated in Fig. 2.1



**2.7** The UK economy has continued to grow in recent years despite the impact of weak global demand and ongoing global uncertainty. For more information see Chapter 3 of this report.

**2.8** Objective I commits the Treasury to a macroeconomic framework that promotes stability. This has been achieved through transparent monetary and fiscal frameworks whose credibility is demonstrated by the fact that market expectations of inflation have remained around the inflation target since the introduction of these frameworks in 1997. Over the past year, employment has risen to record levels, while unemployment on both measures has remained close to its lowest levels for a generation, with claimant count unemployment below three per cent for the first time since 1975.

**2.9** The need to maintain macroeconomic stability, if the UK were to join the EMU, was at the heart of the Treasury’s assessment of the Government’s five economic tests, published in June 2003. In principle, the Government is in favour of UK membership; in practice, the economic conditions must be right. The determining factor is the national economic interest and whether, on the basis of an assessment of the five economic tests, the economic case for joining is clear and unambiguous.

2.10 The assessment concluded that: *“since 1997, the UK has made real progress towards meeting the five economic tests. But, on balance, though the potential benefits of increased investment, trade, a boost to financial services, growth and jobs are clear, we cannot at this point in time conclude that there is sustainable and durable convergence or sufficient flexibility to cope with any potential difficulties within the euro area.”*<sup>1</sup> External commentators remarked on the comprehensive, robust and rigorous nature of the assessment. Indeed, the concluding statement of the IMF mission, published 18 December 2003, stated, *“The comprehensive analysis carried out by Treasury makes an important contribution to informing the public debate on the economic benefits and costs of EMU entry”*<sup>2</sup>.

### Future Plans

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

2.12 Budget 2004 reported on progress on the reform agenda since the 2003 assessment of the five economic tests. The Chancellor announced in his Budget speech that, while the Government did not propose an assessment be initiated at the time of the 2004 Budget, the Treasury would again review progress at Budget time next year and report to the House.

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<sup>1</sup>Source: UK Membership of the Single Currency: An Assessment of the Five Economic Tests (Cm 5776)

<sup>2</sup>[http://www.hm-treasury.gov.uk/newsroom\\_and\\_speeches/press/2002/press\\_131\\_02.cfm](http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2002/press_131_02.cfm)

## OBJECTIVE II: To maintain sound public finances in accordance with the code for fiscal stability

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### Performance against target

2.13 The specific target for this objective is PSA Target 3 'Over this economic cycle maintain: public sector net debt below 40 per cent of GDP; and the current budget in balance or surplus.' Performance against these targets in 2003-04 was as follows:

- public sector net debt was 33.2 per cent of GDP, well below the 40 per cent ceiling; and
- the current budget since the start of the current economic cycle shows an average annual surplus up to 2003-04 of 0.4 per cent of GDP.

### Delivery

2.14 The Treasury seeks to deliver Objective II by:

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

### Achievements

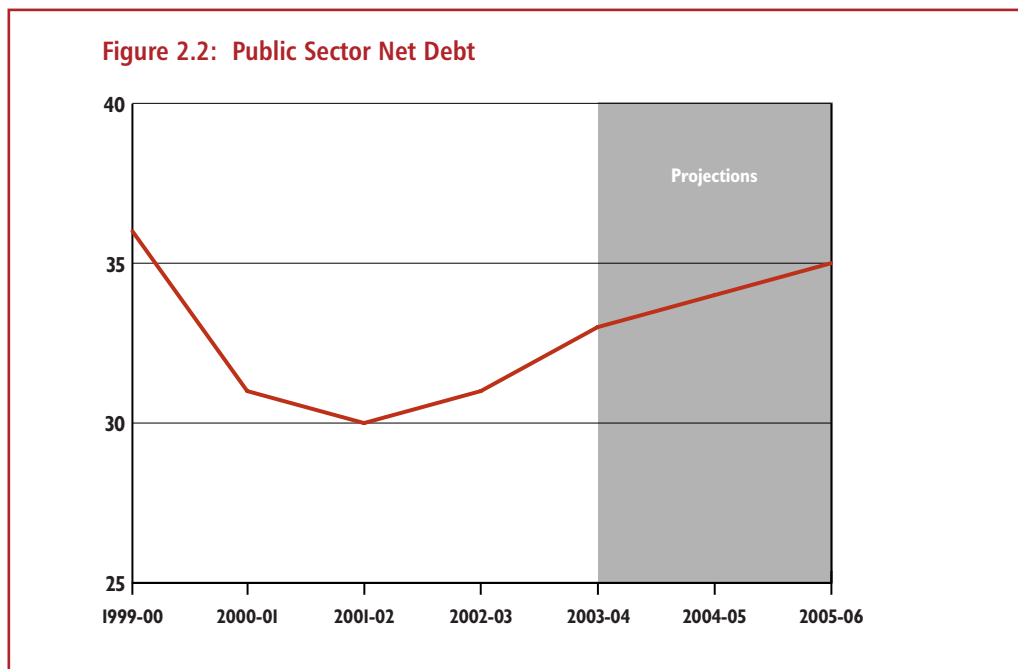
2.15 The average current balance as a percentage of GDP since 1999-00 remained strongly in surplus in 2003-04. This implies that so far over this economic cycle, public sector current receipts have been in excess of current spending, and the public sector has borrowed only to invest. As shown in Fig 2.2, public sector net debt has also been below 40 per cent of GDP in every year of the current economic cycle, meeting the sustainable investment rule.

2.16 Further details of performance against the fiscal rules were published in Budget 2004, available on the Treasury website<sup>3</sup>.

2.17 The Treasury has also introduced the annual publication of an End of Year Fiscal report, which includes a comprehensive analysis of the public finances over recent years. Further details are also available on the Treasury website.

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<sup>3</sup><http://www.hm-treasury.gov.uk>



### Future Plans

**2.18** Budget 2004 confirmed that the Government will continue to ensure sound and sustainable public finances over the medium term with fiscal policy supporting monetary policy:

- On target 3(a), public sector net debt is projected to be low and stable over the next five years, stabilising at just under 36.5 per cent of GDP at the end of the projection period - £53 billion below the 40 per cent ceiling set in the sustainable investment rule.
- On target 3(b) the current budget since the start of the current economic cycle in 1999-2000 shows an average annual surplus up to 2005-06 of 0.1 per cent of GDP. The Government is therefore on course to meet this target on the basis of cautious assumptions.

**2.19** Consistent with meeting the rules, the Government included in Budget 2004 measures such as:

- a £100 payment to pensioner householders which include someone over 70, to help with their council tax bills;
- local authority business growth incentives;
- minimum rates on distributed profits and other measures to protect tax revenues; and
- a new Inland Revenue compliance package which, under cautious assumptions, is expected to raise almost £½ billion a year by 2005-06.

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

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Performance against target

2.20 PSA target 4 relates specifically to this objective. It states that the Treasury will:

Promote increased global prosperity and social justice by:

- working to increase the number of countries successfully participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards;
- ensuring that three-quarters of all eligible Highly Indebted Poor Countries (HIPC) committed to poverty reduction receive irrevocable debt relief by 2006 and working with international partners to make progress towards the United Nations 2015 Millennium Development Goals (joint with the Department for International Development); and
- demonstrating progress towards the Lisbon goals by 2006, by working with our European Union partners to achieve structural economic reform in Europe.

**4(I) WORKING TO INCREASE THE NUMBER OF COUNTRIES SUCCESSFULLY PARTICIPATING IN THE GLOBAL ECONOMY ON THE BASIS OF A SYSTEM OF INTERNATIONALLY AGREED AND MONITORED CODES AND STANDARDS.**

2.21 The Treasury is on course to meet this target. At the end of December 2003 (the last date for which data are available) 492 assessments for 101 countries had been undertaken to monitor and measure countries' compliance with codes and standards. 364 of these assessments have been published.

Delivery

2.22 Delivery of this objective is achieved primarily through close and collaborative working relationships with the relevant institutions, and protecting the UK's influence in international fora. The UK's active membership of the G7 plays a vital role in taking forward the Treasury's international agenda. Beyond this, the Chancellor's role as chair of the International Monetary and Financial Committee (IMFC) – the ministerial steering committee for the International Monetary Fund (IMF) – has allowed the UK to play a particularly influential role in shaping that institution's priorities and gaining widespread acceptance of the importance of codes and standards in the international financial system.

### Achievements

**2.23** The Treasury publishes an Annual Report to Parliament on its dealings with the IMF. The report sets out the approach to IMF issues over the previous year and highlights the Treasury's key priorities going forward. It also includes details of the position the UK has taken in votes by the Board of Governors of the IMF, and in Executive Board discussions of surveillance, programmes and major policy issues. The first report was published for the year 1998-99. The 2003 Annual Report was published on 24 March 2004 and is available on the Treasury website<sup>4</sup>.

**2.24** As set out in the Annual Report, the Treasury has continued to apply pressure and make progress in the IMF and in other fora on a range of issues. In addition to the excellent progress on the Reports on the Observance of Standards and Codes (ROSCs) set out above, this progress includes a programme of work from the Fund on strengthening its surveillance of country policies and performance, a crucial aim of the UK in order to strengthen the global economy by supporting good policies. There was also agreement to a new transparency policy which will make surveillance more effective by increasing the level of publication. On trade, the IMF and World Bank are undertaking work on how to better facilitate countries moving to more open trading regimes, a key way to increase growth. Further details on this and other work areas in the prevention and resolution of crises, and the prevention of abuse of the financial system are available in the Annual Report.

### Future Plans

**2.25** The Treasury will continue to use all formal and informal finance ministry networks to advance the UK's international financial interests and to deliver the objectives associated with the international system. Over the next financial year a particular focus will be preparing for the UK's presidency of the G7 and the EU in 2005.

#### **4 (II) (A) ENSURING THAT THREE-QUARTERS OF ALL ELIGIBLE HIPC COUNTRIES COMMITTED TO POVERTY REDUCTION RECEIVE IRREVOCABLE DEBT RELIEF BY 2006**

**2.26** Progress in countries reaching completion point in the HIPC Initiative has not been as rapid as previously projected by the IMF and World Bank. This is partly due to slippage in the policy performance of individual countries. However, a large group of countries are expected to reach completion point by the end of 2004, and so it is still expected that the target will be achieved by 2006.

**2.27** Of the thirty-eight HIPC countries likely to have unsustainable debt levels, twenty-seven have now reached Decision Point – the stage at which they receive interim relief on their debt servicing. In July 2003, DR Congo became the latest country to reach this stage. During 2003-04, a further two countries - Guyana and Nicaragua - reached Completion Point, bringing the total to ten countries that have had their debt stock irrevocably reduced (see Table 2.2).

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<sup>4</sup>[http://www.hm-treasury.gov.uk/documents/international\\_issues/international\\_institutions/](http://www.hm-treasury.gov.uk/documents/international_issues/international_institutions/)

<b>Country</b>	<b>Date of Decision Point</b>	<b>Date of Completion Point</b>
Bolivia	January 2000	May 2001
Mauritania	March 2000	June 2002
Uganda	March 2000	May 2000
Mozambique	April 2000	September 2001
Tanzania	April 2000	December 2001
Senegal	June 2000	-
Benin	July 2000	March 2003
Burkina Faso	July 2000	April 2002
Honduras	July 2000	-
Mali	September 2000	March 2003
Cameroon	October 2000	-
Guyana	November 2000	December 2003
The Gambia	December 2000	-
Guinea	December 2000	-
Guinea-Bissau	December 2000	-
Madagascar	December 2000	-
Malawi	December 2000	-
Nicaragua	December 2000	January 2004
Niger	December 2000	-
Rwanda	December 2000	-
São Tomé and Príncipe	December 2000	-
Zambia	December 2000	-
Chad	May 2001	-
Ethiopia	November 2001	-
Ghana	February 2002	-
Sierra Leone	March 2002	-
DR Congo	July 2003	-

#### **4 (II) (B) WORKING WITH INTERNATIONAL PARTNERS TO MAKE PROGRESS TOWARDS THE UN 2015 MILLENNIUM DEVELOPMENT GOALS (MDGs)<sup>5</sup>**

**2.28** The MDGs are challenging targets. In some regions good progress has been made, but overall progress is slower than expected. On current trends, only 2 of the 18 MDG targets are likely to be met (halving the proportion of people whose income is less than \$1 a day and without sustainable access to safe drinking water). The situation in Sub-Saharan Africa is especially critical, as it is likely to fail to meet any of the MDGs without urgent action. This is illustrated in Fig 2.3.

**2.29** However, with the appropriate policies in developing and developed countries, supported by the right amount and effective use of resources, the goals can be achieved. The Treasury also continues to work closely with the Department for International Development (DfID) and other partners to make the case for an International Finance Facility (IFF), designed to deliver the additional resources that are necessary.

<sup>5</sup>More information on the MDGs is available on the MDGs website at [www.developmentgoals.org](http://www.developmentgoals.org)

Delivery

2.30 The Treasury has continued to work closely with DfID and other partners to support the MDGs and debt relief. The UK remains an influential voice in the G7 and at the Boards of the IMF and World Bank, particularly in supporting the full implementation of the HIPC Initiative and its objective of providing countries with a sustainable level of debt and, release funds for social expenditure and poverty reduction. Under its 100 per cent bilateral debt relief policy, the UK provides additional funds at Completion Point over and above those under the HIPC initiative.

**Figure 2.3: Timeline: when will the Millennium Development Goals be achieved if progress does not accelerate?**

	Poverty	Hunger	Primary education	Gender equality	Child mortality	Access to water	Access to sanitation
<b>ACHIEVED</b>	Arab States <sup>a</sup> East Asia & the Pacific	Central & Eastern Europe & the CIS	Latin America & the Caribbean Central & Eastern Europe & the CIS East Asia & the Pacific	Latin America & the Caribbean <sup>a</sup>		Central & Eastern Europe <sup>a</sup> & the CIS	
2000	<b>World</b> South Asia	East Asia & the Pacific			Latin America & the Caribbean	South Asia <b>World</b> Latin America & the Caribbean	
2015					East Asia & the Pacific	East Asia & the Pacific	South Asia <b>World</b> Latin America & the Caribbean East Asia & the Pacific
2020		Latin America & the Caribbean		East Asia & the Pacific			
2050		<b>World</b>	South Asia	Arab States South Asia	South Asia Arab States	Sub-Saharan Africa	
2100			Arab States <b>World</b>				
2200		South Asia Sub-Saharan Africa	Sub-Saharan Africa		Sub-Saharan Africa		
<b>REVERSAL</b>	Latin America & the Caribbean Sub-Saharan Africa Central & Eastern Europe & the CIS	Arab States			Central & Eastern Europe & the CIS		Sub-Saharan Africa

<sup>a</sup>Region is considered to have achieved the Goal because it has low human poverty (below 10 per cent) in the most recent year for the relevant Goal  
Source: UN Department of Economic and Social Affairs, 2003 Human Development Report

## Future Plans

**2.31** On HIPC, the UK will continue to use international fora to press for the full implementation of topping up relief support to countries that have yet to reach Completion Point. The Treasury and DfID are also working closely with the World Bank and IMF on an underpinning debt sustainability framework, to ensure that the poorest countries avoid unsustainable levels of debt.

**2.32** In order to meet the MDGs by 2015, substantial additional aid to developing countries is needed. To achieve this, the UK has proposed the creation of an International Finance Facility. At the Annual Meeting of the World Bank and the IMF in September 2003, the IFF received widespread support, but more support is needed to make the facility a reality. The Treasury is working with partners, such as DfID, NGOs, business representatives and faith leaders to press for the creation of the IFF.

### **4(III) DEMONSTRATING PROGRESS TOWARDS THE LISBON GOALS BY 2006, BY WORKING WITH OUR EUROPEAN UNION PARTNERS TO ACHIEVE STRUCTURAL ECONOMIC REFORM IN EUROPE<sup>6</sup>.**

**2.33** At the Lisbon European Council in March 2000, Europe's leaders committed themselves to a ten-year programme of far-reaching economic reform designed to make the European Union *"the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*.

**2.34** Since the launch of the Lisbon strategy, important steps have been taken to reform the European economy, including modernisation of the EU competition regime, reform of the state aid rules and a range of actions in Member States to promote enterprise and employment. However, as Europe approaches the halfway stage in the Lisbon strategy, the need for further reform remains pressing. Though rising, the EU employment rate stood at just 64.3 per cent in 2002, some way below the target of 70 per cent by 2010 and the interim target of 67 per cent by 2005. Moreover, in 2002, productivity in the US continued to exceed that in the EU by around 14 per cent on a per hour basis and 19 per cent on a per worker basis (as illustrated by Fig 2.4).

**2.35** A detailed assessment of progress and the Government's priorities were set out in *Advancing long-term prosperity: economic reform in an enlarged Europe<sup>7</sup>*, published by the Treasury in February 2004.

## Delivery

**2.36** The Treasury continues to work with EU partners and institutions to encourage reform at the national and community level.

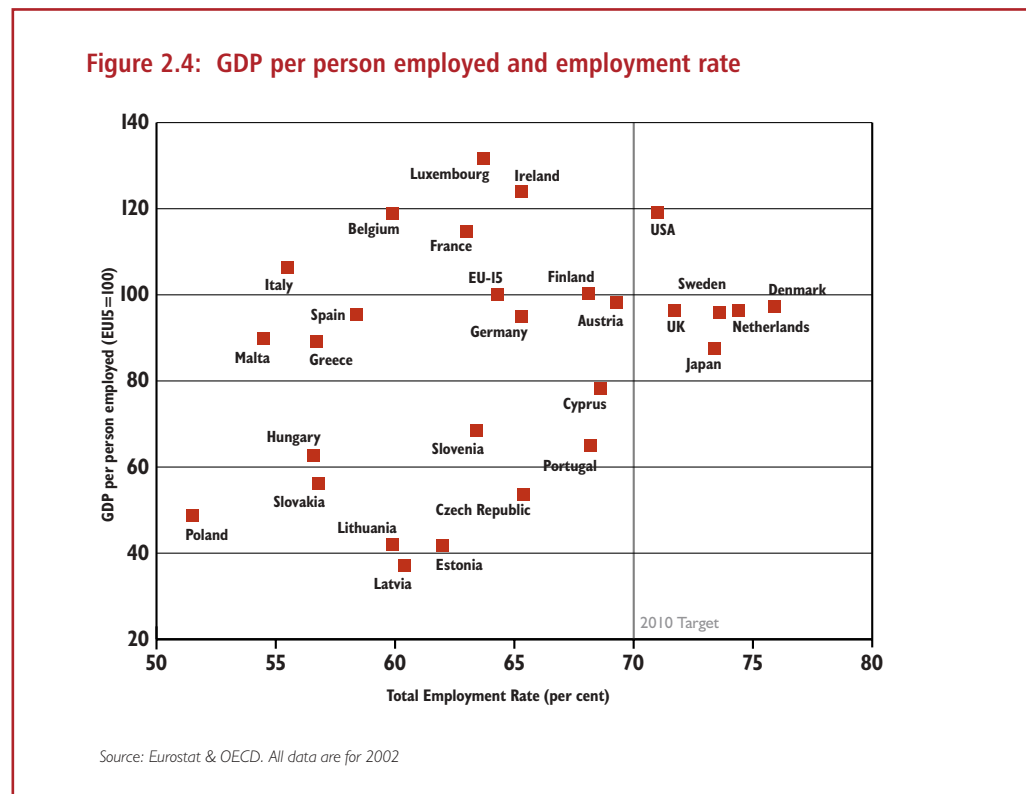
<sup>6</sup>More information on the Lisbon Goals is available on the European Commission website at [http://www.euro\\_cu.int/comm/lisbon\\_strategy/index-en.html](http://www.euro_cu.int/comm/lisbon_strategy/index-en.html)

<sup>7</sup>[http://www.hm-treasury.gov.uk/documents/international\\_issues/european\\_economic\\_reform\\_white\\_paper](http://www.hm-treasury.gov.uk/documents/international_issues/european_economic_reform_white_paper)

2.37 Action to advance the Lisbon goals requires further reform to increase the flexibility of the EU economy, by strengthening the drivers of productivity growth and improving the functioning of European labour markets. Details of the Government’s approach to delivery, and of its specific priorities for reform, were set out in the Treasury’s February 2004 report. These reforms focus on the need to promote employment and skills, strengthen competition and regulatory reform, advance enterprise and innovation, achieve greater external trade liberalisation, and promote sustainable development.

Achievements

2.38 Over the past year, steps have been taken to improve the quality of EU regulation, modernise the competition regime in Europe, and increase national and Community level investment in research and development. The Government has played an active role in the development of each of these reforms. In addition, many other EU Member States have launched further domestic reforms, among other things to promote enterprise and innovation and improve levels of labour market flexibility.



**2.39** The Government has also successfully worked with its EU partners to help set the agenda for reform in Europe and to deliver increased momentum in specific areas. Detailed new proposals to improve regulatory reform in Europe were jointly released by the Treasury and the Finance Ministries of Ireland, the Netherlands and Luxembourg, spanning the four consecutive EU Presidencies. In addition, the Treasury and the Department for Trade and Industry launched joint proposals with France and Germany to encourage enterprise and innovation in the EU at the Chancellor's January 2004 enterprise conference and at the February 2004 summit of French, German and UK leaders.

### Future Plans

**2.40** The Treasury will continue to work with EU finance ministries and other institutions to develop proposals for reform and to encourage the implementation of reform across the Union, including through the prospective mid-term review of the Lisbon strategy, which is due to conclude in 2005. This work will focus on strengthening the key drivers of productivity growth and improving the functioning of EU labour markets. The Government will press for additional progress towards multilateral and bilateral trade liberalisation and seek a modern and flexible framework for EU budget expenditure, which ensures that allocations within a limited budget are effectively focussed in support of the Lisbon goals.