CHANCELLOR OF THE EXCHEQUER'S DEPARTMENTS

The Government's Expenditure Plans 1998-99 & Net Payments to European Community Institututions

Cm 3917

HM Treasury
April 1998

Exceptionally, this year's departmental report covers only one forward year (1998-99), instead of the normal three forward years.

The Government will announce its decisions on the spending objectives and allocations for the later years when its Comprehensive Spending Review has been completed.

Comments on the coverage or presentation of this report should be sent to:

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They will be considered in preparing the 1999 report.

Departmental Report of the Chancellor of the Exchequer's Departments

The Government's Expenditure Plans
1998-99
for
HM Treasury
National Savings
Registry of Friendly Societies
National Investment and Loans Office
Office for National Statistics
Government Acturary's Department
&
Net Payments to European Community Institutions

Present to Parliament by the Chancellor of the Exchequer and Chief Secretary to the Treasury by Commans of Her Majesty

3 April 1998

Cm 3917

£30

Contents

Introduction

1:	***HM Treasury***		***1***
	1.1	Aim and Objectives	1
	1.2	Reports on 1997-98 and targets, plans or milestones for 1998-99	6
	1.3	Other Bodies	67
	1.4	Royal Mint	68
	1.5	Bank of England	70
	1.6	Parliamentary Bodies, Honours and Dignities	73
	1.7	Bibliography	74
2:	***National Savings***		***79***
	2.1	Aims and Objectives	79
	2.2	Achievements to date and plans	80
	2.3	Funding	80
	2.4	Customer Services and people management	81
	2.5	Customer service targets	81
	2.6	Citizen’s Charter	81
	2.7	Compensation payments for maladministration	82
	2.8	Senior management	82
	2.9	Equal opportunities	83
	2.10	Recruitment	83
	2.11	Public Appointments	83
	2.12	Senior staff salaries	84
	2.13	Value for money and financial	84
	2.14	Accommodation	88
	2.15	Bibliography	88
3:	***Registry of Friendly Socieites***		***89***
	3.1	Aims and Objectives	89
	3.2	Summary of progress to date and future plans	90
	3.3	Improving services and value for money	92
	3.4	Departmental running costs, capital and staffing	94
	3.5	Bibliography	98

4: NATIONAL INVESTMENT AND LOANS OFFICE — 99

4.1	Aims, objectives and responsibilities	99
4.2	Progress to date and plans for 1998-99	100
4.3	Running costs, staffing and capital	101
4.4	Management in the department	103
4.5	Bibliography	104

5: OFFICE FOR NATIONAL STATISTICS

5.1	Introduction	105
5.2	Aims and objectives	105
5.3	Better Regulation	107
5.4	Efficiency and value for money	108
5.5	Running costs and staffing	109
5.6	Capital expenditure	112
5.7	Capital assets	113
5.8	Tangible fixed Assets	113
5.9	Public/Private partnerships	114
5.10	Maladministration/Prompt payments	115
5.11	Equal Opportunities	115
5.12	Citizen's Charter	116
5.13	Energy and the Environment	116
5.14	Public Appointments	117
5.15	Bibliography	117

6: GOVERNMENT ACTUARY'S DEPARTMENT — 118

6.1	Responsibilities, aims and objectives	118
6.2	Achievements	119
6.3	Progress to date and plans for 1998-99	121
6.4	Efficiency measures and value for money	121
6.5	Performance indicators	122
6.6	Running costs, staffing and capital	124
6.7	Prompt payment of Bills	126
6.8	Recruitment and equal opportunities	126
6.9	Citizen's Charter	126
6.10	Environmental policies	126
6.11	Location	127
6.12	Bibliography	127

7:	*Net Payments to European Community Institutions*		*128*
	7.1	Introduction	128
	7.2	Basis of Programme 27	128
	7.3	Forecast Methodology	129
	7.4	Estimates of current financial years	129
	7.5	Presentation of Data	129
	7.6	Comparison with the last departmental Report	131
	7.7	Gross Contributions	131
	7.8	Gross Receipts	132
	7.9	UK Abatement	134
	7.10	Relative position of the Member States	134
	7.11	Bibliography	136

Annexes

Annex A: Tables

Table 8.1	Cash plans	139
Table 8.2	Running costs	141
Table 8.3	Staff numbers	144
Table 8.4	Reconciliation between cash plans table and estimates	146

Annex B: - Responsibilities of Treasury Ministers

Chief Secretary, Rt Hon Alistair Darling MP	147
Financial Secretary, Dawn Primarolo MP	147
Paymaster General, Geoffrey Robinson MP	148
Economic Secretary, Helen Liddell	148

INTRODUCTION

BY THE CHANCELLOR OF THE EXCHEQUER, RT HON GORDON BROWN MP

I am very pleased to publish this account of the performance of six departments and agencies that report to me and my Treasury colleagues.

As an opportunity to assess both the progress that these bodies have made over the last year, and their plans for 1998-99, it contributes to open government. And it gives me a chance to thank those who work in these Departments for their dedication and commitment.

It has been a busy year, including:

- putting the economy on to a stable, long-term footing. We have introduced a new monetary framework to ensure interest rates are set in the long-term interests of the economy, free from political interference; and taken the necessary steps to put the public finances back onto a sound footing with a five-year deficit reduction plan;
- tackling Britain's poor record of investment. We have cut the main rate of corporation tax to the lowest level of any major industrial country; announced the reform of the corporation tax system to encourage companies to retain and reinvest profits; and reinvigorated the Private Finance Initiative to lever private sector capital into our infrastructure;
- promoting employability, investing in skills and moving people from welfare into work. We have introduced a New Deal for the young and long-term unemployed; launched a review of the tax and benefit system to help make work pay; announced a major expansion of childcare provision; and allocated extra resources to our schools;
- support in principle for Economic and Monetary Union; the specification of tests for entry; and the launch of the necessary, practical preparations;
- ensuring public money is spent efficiently and targeted at our priorities. We have launched a comprehensive spending review to examine every aspect of public expenditure; targeted extra resources at our priority areas of health and education; and
- the setting up of the Financial Services Authority to achieve more efficient and effective financial supervision.

All these policies contribute to my overriding goal of high and stable levels of growth and employment by avoiding any return to boom and bust, removing barriers to growth, and modernising the welfare state. We will make further strides in 1998-99, notably the reform of the tax and benefit system and the implementation of programmes to assist the most vulnerable from welfare into work.

GORDON BROWN

Chancellor's departments - summary of spending plans (£ millions)

	1992-93 outturn	1993-94 outturn	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
HM Treasury	198	190	188	183	181	191	164
Customs and Excise	879	863	871	859	841	856	836
Inland Revenue	2,065	2,050	1,980	1,949	1,873	1,925	1,828
National Savings	210	199	197	194	179	178	173
Registry of Friendly Societies	3	3	3	2	6	5	2
National Investment and Loans Office	-1	-	-1	-1	-1	1	-
Paymaster	26	-2	-2	-1	-	-	-
Office for National Statistics	97	90	93	103	110	98	97
Government Actuary's Department	1	1	-	-	-	-	1
Total	**3,478**	**3,393**	**3,329**	**3,288**	**3,190**	**3,254**	**3,100**
Net payments to EC Institutions	1,912	1,877	1,268	3,370	1,717	1,783	2,442

1. HM TREASURY

1.1 Aim and Objectives

The Treasury's aim and objectives were set by the Chancellor of the Exchequer and are shown in chart 1A below.

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.

In seeking to meet this aim, we will:

- achieve long term stability by maintaining sound public finances and open, accountable and effective arrangements for delivering price stability.
- set levels of public expenditure which can be financed by a fair and efficient tax system that promotes incentives to work, save and invest.
- secure high quality, cost-effective public services which deliver expenditure priorities and policies, including partnerships between the public and private sectors.
- promote high standards of propriety, regularity and accountability and an effective accounting and budgeting framework.
- expand economic and employment opportunity for all through productive investment, competition, better regulation and increased employability.
- secure an efficient market in financial services and banking, and protect consumers, by delivering fair and effective supervision.
- arrange for the cost-effective management of the government's debt and foreign currency reserves and the supply of notes and coins.

In pursuit of these objectives, we will

- promote the UK's economic interests and ideas through international cooperation and keeping abreast of developments in other countries.
- maintain a professional, well-motivated and outward-looking organisation, committed to

    open and accountable conduct of policy; and

    efficient, economic and effective management of its running costs.

Opportunity for all, and a dynamic economy, are each indispensable to the other. In a global market place, the key to growth is to realise the potential of the population. In turn, high and sustainable growth is the basis for providing opportunity in the long term.

Each of the Department's objectives contributes to this aim:

a. price stability and sound public finances promote lower, long term interest rates and the most conducive macroeconomic environment for investment. (Within this area, the Treasury also oversees the supply of notes and coinage; and the management of over £400 billion of central Government debt.)

b. the scale of public expenditure entails taxation of 37 per cent of Gross Domestic Product. So fair and efficient tax and benefit systems can make a crucial contribution to individuals' willingness to work and the profitability of investment.

c. public services are valuable in their own right. They can also contribute both to the growth potential of the economy, notably through partnerships with the private sector, and to achieving an inclusive society;

d. given the extent of public expenditure, and assets within the public sector worth hundreds of billions of pounds, it is essential to the quality of decisions taken on their use and their contribution to higher growth that there are robust systems for accounting and budgeting.

e. leverage upon economic growth extends beyond public expenditure to the framework of competition law and regulation within which the private sector operates;

f. the Treasury has policy responsibility for the supervision of financial services. They not only represent about 7 per cent of Gross Domestic Product (GDP) but contribute to the competitiveness and dynamism of the rest of the economy.

g. international cooperation is particularly important for open economies such as the UK, in which exports form around 30 per cent of GDP and there is extensive inward and outward investment. Free international markets for goods and capital facilitate transfers of technology and know-how that contribute to higher growth. the UK than for other leading economies.

h. finally, to carry out these duties, the Treasury itself needs to be well staffed and organised. The Treasury's directorates are set out in Charts 1B and 1C.

CHART 1B: THE TREASURY'S DIRECTORATES

DIRECTORS	LEAD RESPONSIBILITY FOR OBJECTIVES
Macroeconomic Policy and Prospects **Gus O'Donnell**	**Achieve long term stability by maintaining sound public finances and open, accountable and effective arrangements for delivering price stability.** **Arrange for the cost-effective management of the government's debt and foreign currency reserves and the supply of notes and coins**
International Finance **Sir Nigel Wicks**	**Promote the UK's economic interests and ideas through international cooperation and keeping abreast of developments in other countries.**
Budget and Public Finances **John Gieve**	**Set levels of public expenditure which can be financed by a fair and efficient tax system that promotes incentives to work, save and invest.**
Spending **Robert Culpin**	**Secure high quality, cost-effective public services which deliver expenditure priorities and policies, including partnerships between the public and private sectors.**
Financial Management Reporting and Audit **Andrew Likierman**	**Promote high standards of propriety, regularity and accountability and an effective accounting and budgeting framework.** (This objective is shared with Personnel & Support.)
Finance Regulation and Industry **Steve Robson**	**Expand economic and employment opportunity for all through productive investment, competition, better regulation and increased employability.** **Secure an efficient market in financial services and banking, and protect consumers, by delivering fair and effective supervision.**
Personnel and Support **Margaret O'Mara**	**Maintain a professional, well-motivated and outward-looking organisation, committed to** - open and accountable conduct of policy; and - efficient, economic and effective management of its running costs. (This objective is shared with FMRA)

Each directorate comprises a number of teams whose specific objectives contribute to one or more of the nine that are set for the Department. The senior management structure is tabulated in chart 1C below.

CHART 1C: SENIOR MANAGEMENT STRUCTURE

PERMANENT SECRETARY	SIR TERRY BURNS (**)	PERM

Ministerial support	MIN	Tom Scholar
Communications	COM	Peter Curwe

MACROECONOMIC POLICY AND PROSPECTS		MPP
Director:	GUS O'DONNELL	
Deputy director	Joe Grice	
Deputy director	Jon Cunliffe	(**)

Economic Assessment	EP	Chris Kelly
Fiscal and macroeconomic policy	FMP	Andrew Kilpatrick
Bank of England Bill	BB	Stephen Pickford
European Monetary Union	EMU	Melanie Dawes
EMU Preperations Unit	EPU	Sue Killen
Debt and reserves management	DRM	David Deaton
Economist group management unit	EGMU	Malcolm Bradbury

DEBT MANAGEMENT OFFICE	
Chief Executive:	Mike Williams

INTERNATIONAL FINANCE		IFD
Director:	SIR NIGEL WICKS	
Deputy director	Paul McIntyre	(**)
Deputy director	David Peretz	

EU finances	EUF	Nick Ilett
EU future strategy EU coordination	EUS EUC	Sue Owen
Developing countries,debt and export finance	DDX	Mike Richardson
International financial institutions and Former Soviet Union	IIF	Alex Gibbs
Trade policy and developments World economic issues Regional/country analysis	TPD WEI RCA	Simon Brooks

BUDGET AND PUBLIC FINANCES		BPF
Director:	JOHN GIEVE	(4)
Deputy director	Colin Mowl	(**)
Deputy director	Vacant	(*)

General expenditure policy	GEP (*)	Vacant
General expenditure statistics	GES	Allen Ritchie
Exchequer funds and accounts	EFA	Martin Hansford (3)
Public sector finances	PSF	David Savage
Budget coordination	BUD	Peter Kane
Tax policy	TP	Phil Wynn Owen
Tax administration	TA	Mark Parkinson
Public sector pay policy	PSPP	Ruth Kosmin
Public service pensions	PSP	Stephen Matthews

SPENDING		S
Director:	ROBERT CULPIN	(**)
Deputy Director	Norman Glass	(*) (2)
Deputy Director	Gill Noble	
Deputy Director	Peter Sedgwick	
Deputy Director	Nicholas Macpherson	

Aid, diplomacy and intelligence	ADI	Sylvia Thomson
Defence	D	Sarah Walker
Agriculture	A	Simon Judge
Social security	SS	Joseph Halligan
Health	H	Andrew Hudson
Scotland, Wales and Northern Ireland	SWaNI	Mark Neale
Culture and central departments	CCD	Wilf White
Education, training and employment	ETE	Ruth Thompson
Home and legal	HL	Peter Brook
Local government	LG	Ian Taylor
Environment, transport and the regions	ETR	Suma Chakrabarti
Central operational research and economics	CORE (*)	Norman Glass (2)

FINANCIAL MANAGEMENT REPORTING AND AUDIT		FMRA
Director:	ANDREW LIKIERMAN	(**)
Deputy director	Jamie Mortimer	(*)

Treasury officer of accounts	TOA (*)	Jamie Mortimer
Central accountancy	CA	David Loweth
Development of accountancy resources	DART	Duncan Slaughter
Audit policy and advice	APA	Chris Butler
Resource accounting and budgeting	RAB	Ros Dunn
Resource accounting and budgeting legislation	RABL	John Breckenridge
Finance and purchasing (Strategy, finance and purchasing)	SFP (1)	Nicholas Holgate
Treasury internal audit	TIA	Anne Marie Jones

FINANCE REGULATION AND INDUSTRY		FRI
Director:	STEVE ROBSON	
Deputy director	Martin Roberts	
Deputy director	Robin Fellgett	

Credit institutions	CI	Colin Farthing
Financial services	FS	Paula Diggle
Securities and markets policy	SMP	Dilwyn Griffiths
International financial services	IFS	Caroline Speck
Financial regulatory reform	RR	David Roe
Private finance	PFU	Peter Wanless
Procurement policy	PP	John Colling
Procurement practice and development	PPD	Mike Burt
Non-life Insurance Supervision	11	John Whitlock
Life and Composites Insurance Supervision	12	Roger Allen
International and General Policy	13	Richard Wells
Lloyd's and London market supervision	14	Peter Casey

ENTERPRISE AND GROWTH UNIT		EGU
Deputy director	Harry Bush	

Public enterprise partnership	PEP	Adam Sharples
Industry issues	IND	Craig Pickering
Competition, regulation and energy markets	CRE	Jonathan May

PERSONNEL AND SUPPORT		PS
Director:	MARGARET O'MARA	

Personnel management	PM	Don Rayson
Information systems	IS	John Dodds
Accommodation and security	AS	Ian Cooper

(*) indicates combined deputy director and head of standing team (**) indicates head of cross-directorate standing team

(1) Nicholas Holgate reports to Sir Terry Burns on strategy, and to Andrew Likierman on finance and purchasing

(2) Supported by Mike Parsonage and Gabs Makhlouf

(3) Martin Hansford reports direct to Sir Terry Burns on Royal Finance matters

(4) Supported by Peter Short, BPF senior economist

There have been a number of changes in organisation in order to respond to Ministers' new priorities. The largest of these is the transfer of responsibilities for insurance policy from the Department of Trade and Industry to the Treasury, comprising four teams in FRI. Subject to the passage of legislation, most of this work will be transferred on to the Financial Services Authority.

In MPP, a new team was set up in May to steer through the Bank of England Bill. Resources devoted to monetary policy have been reduced, while those directed at defining the framework for fiscal policy and assessment of structural issues have been increased. The teams which monitor and forecast economic developments have been merged, and work on EMU has been reinforced by a new unit which will take forward the work on practical preparations for the euro. Work has progressed in setting up a debt management office.

A second Bill team is dealing with financial regulatory reform and an Enterprise and Growth Unit has been set up to lead and coordinate efforts on economic and employment opportunity, supported by a new team on public enterprise partnerships. Within the Spending directorate, work on the responsibilities of the new Department of the Environment, Transport and the Regions was brought together; and that on Scotland, Wales and Northern Ireland reinforced in order to advise on devolution.

1.2 REPORTS ON 1997-98 AND TARGETS, PLANS OR MILESTONES FOR 1998-99

OBJECTIVE 1: TO ACHIEVE LONG TERM STABILITY BY MAINTAINING SOUND PUBLIC FINANCES AND OPEN, ACCOUNTABLE AND EFFECTIVE ARRANGEMENTS FOR DELIVERING PRICE STABILITY

The Government's central economic objective is to achieve high and stable levels of growth and employment, so that everyone in Britain can share in higher living standards and greater job opportunities. The Government can make an important contribution by creating the right conditions in which people and businesses can plan and invest with confidence. Low inflation and sound public finances are both essential building blocks for long-term growth. It is the Treasury's job to develop the framework to deliver economic stability.

1.2.1 Report on 1997-98

In recognition of this a new, open and accountable framework for monetary policy was introduced following the election of the new Government in May. The Bank of England is now free to set interest rates so as to achieve the Government's target of low inflation.

The Government's first Budget, in July, set out a framework for fiscal policy, signalling a similar transparent approach to achieving sound public finances. The Pre-Budget Report, in November, developed the fiscal framework further and set out the principles that will guide fiscal policy in the future. The Government also signalled its intention to legislate for a Code for Fiscal Stability.

1.2.2 The monetary policy framework

Following the Chancellor's announcement on 6 May, the first meeting of the Bank of England's newly-formed Monetary Policy Committee took place on 5-6 June. The monetary policy framework is currently being legislated for under the Bank of England Bill. This is expected to receive Royal Assent by April or May 1998. The Bill will ensure that the Government retains clear responsibility to Parliament for setting the objectives of monetary policy. The Bank of England's role is to take the operational decisions to meet these objectives and the Bank is accountable to Ministers and Parliament for their achievement.

The purpose of monetary policy is price stability. Subject to that objective the Bank of England is required to support the Government's economic policy, including its objectives for growth and employment.

Excessive inflation undermines the capacity for sustainable growth and employment. It distorts economic decisions by consumers and producers, and longer-term decisions by investors and savers. High inflation also arbitrarily and unfairly distributes income and wealth. The people who suffer most are typically those on fixed and low incomes.

1.2.3 *The inflation target*

In the Mansion House speech on 12 June, the Chancellor announced the target for inflation as defined by the 12-month increase in the Retail Prices Index less mortgage interest payments (RPI ex MIPs) of 2½ per cent. At the same time, a remit was sent to the Governor of the Bank of England and the Treasury prepared a memorandum which set out the background to the new framework.

The inflation target is 2½ per cent at all times; that is the rate which the Monetary Policy Committee is required to achieve and for which it is accountable. If the ability of the British economy to sustain growth with low inflation strengthens, and if international conditions permit, a lower inflation target might be set in due course. The new inflation target removes the ambiguity that surrounded the old target and makes it possible to hold the Bank properly to account.

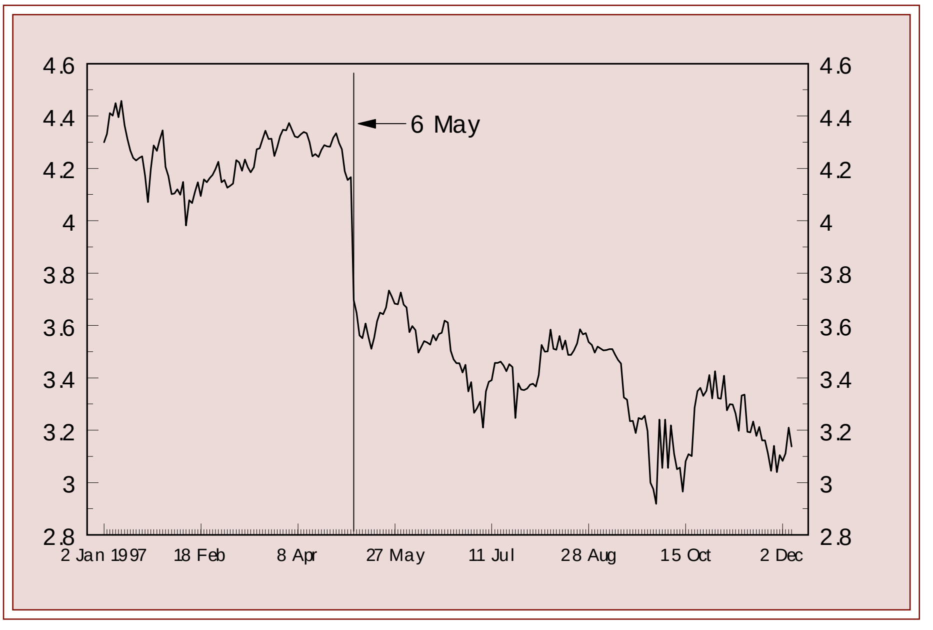
1.2.4 *Accountability and the open letter system*

Temporary deviations from the target may occur as a result of a range of unforseen developments or ‘shocks’ which affect the price level, such as sharp movements in commodity prices. But if such deviations occur, and inflation is 1 percentage point higher or lower than the target, the onus is on the Bank to explain the situation. In such circumstances an open letter will be sent by the Governor to the Chancellor so that the public is fully informed as to:

- why the divergence has occurred;
- the policy action being taken to deal with it;
- the period within which inflation is expected to return to the target;
- how this approach meets the Bank’s monetary policy objectives.

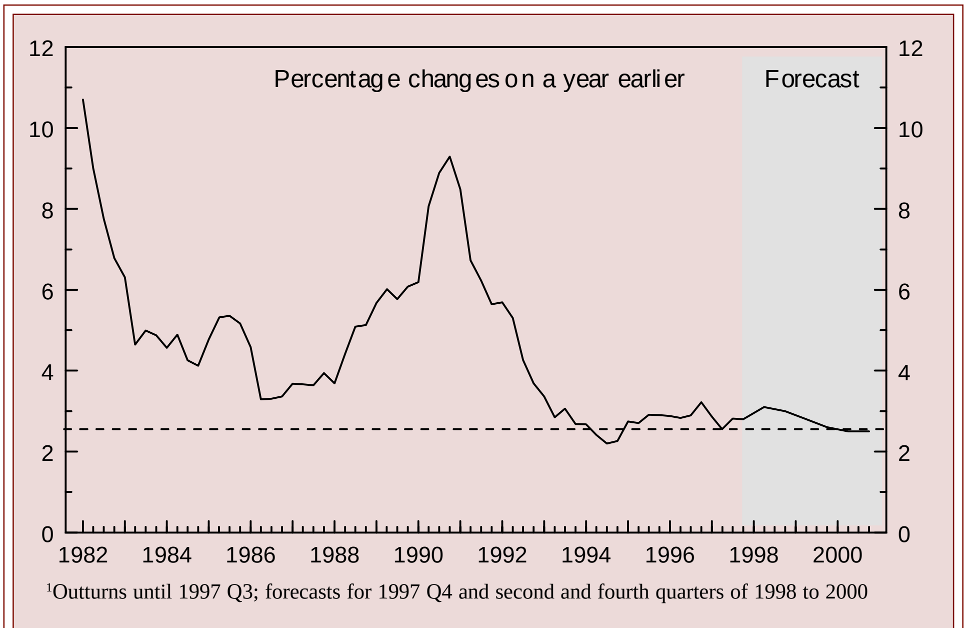
The UK’s monetary policy is now among the most transparent and accountable in the world. This means that people and business can now plan ahead with far greater assurance that the inflation target will be met. Since May, market expectations of inflation and long-term interest rates have fallen, by over 1 percentage point, lending support to the view that the credibility of policy has been enhanced.

CHART 1D: IMPLIED EXPECTED INFLATION RATE IN 10 YEARS' TIME



1.2.5 Inflation and the monetary stance

CHART 1E: RPI EXCLUDING MIPS[1]



[1]Outturns until 1997 Q3; forecasts for 1997 Q4 and second and fourth quarters of 1998 to 2000

Since May, interest rates have been raised 1¼ percentage points and now stand at 7¼ per cent. The last four ¼ point increases in interest rates were agreed by the Monetary Policy Committee of the Bank of England. The discussions underlying these decisions are given in detail in the minutes of the Committee's meetings which are published five weeks after the meeting. The minutes reveal that the Committee decided to tighten policy because there was a significant risk that inflation would rise in the future. In these circumstances, some tightening of monetary policy offered the best chance of achieving continued growth in output and employment at a sustainable pace.

1.2.6 The fiscal policy framework

Sound public finances are the second key requirement for the achievement of long-term economic stability. Building on the reforms to monetary policy, the Treasury has been developing an open, transparent and accountable fiscal policy framework. In particular, a consultative paper on a Code for Fiscal Stability was published in November. The Code sets out a commonsense approach to fiscal policy based on 5 principles of fiscal management: transparency, stability, responsibility, fairness and efficiency. In addition, the proposed Code involves clear reporting requirements and that the Government commits itself to best-practice methods of accounting. The intention is to give the Code a statutory basis in the Finance Bill so as to strengthen the credibility of fiscal policy and to ensure that it is always conducted in the UK's long-term interests. A consistent approach to fiscal policy based upon sound public finances provides the best means to promote a stable macro-economic environment and faster long-term investment and growth.

1.2.7 1997 Budget

The Budget was delivered in July. The Financial Statement and Budget Report (FSBR) set out two new fiscal rules designed to ensure sound public finances. A deficit reduction plan was introduced with the aim of meeting the fiscal rules over the economic cycle and Budget measures tightened fiscal policy by £3¼ billion in 1998-99 (excluding the effect of the windfall tax and associated spending). Estimates of cyclically-adjusted fiscal indicators and forecasts of public sector net wealth were published in the FSBR for the first time.

1.2.8 1997 Pre-Budget Report

The Pre-Budget Report was delivered in November. This gave more detail about how the fiscal rules are to be implemented and how the wider fiscal framework is being developed to support the goal of sound public finances. In particular, proposed legislation for a Code for Fiscal Stability would apply to fiscal policy a framework based upon openness and accountability, as a counterpart to the new framework for monetary policy.

As a further part of the Pre-Budget Report consultation process, the Treasury produced a discussion paper on how best to take into account the public sector's balance sheet in fiscal policy, and published a study identifying the lessons for fiscal policy from the experience of the last economic cycle.

1.2.9 *Monitoring progress against the fiscal rules*

The Treasury has continued to monitor Exchequer flows and public borrowing during the year and has maintained the Government's central accounts accurately and efficiently. Progress against the key aggregates which form the focus of the Government's fiscal rules - the public sector current balance, the net public sector debt ratio and gross general government debt ratio - has also been monitored. The fiscal projections published in the Pre-Budget Report were little changed from those published in the July FSBR, showing the Government's deficit reduction plan to be well on course. Public debt ratios are projected to fall, and the public sector current balance is forecast to enter surplus in 1998-99.

1.2.10

The Treasury has continued to develop the wider fiscal framework in a number of ways. Resource Accounting and Budgeting (see also Objective 4) has been developed in such a way as both to fit within and to increase the transparency of the new fiscal framework and efficiency of public spending. Government departments are on course to produce the first full set of published resource accounts for the year 1999-2000. Resource accounts will also be the basis for a new system of public expenditure planning and work has continued on looking at the new spending control aggregates: the resource control total and the total financing requirement. In addition the Treasury has looked at the possibility of making more use of information in public sector balance sheets and published a discussion paper on the issue November. A joint project on contructing generational accounts for the UK, in which the Treasury is working with the National Institute of Economic and Social Research and the Bank of England, began during the year.

CHART 1F: PUBLIC SECTOR CURRENT BALANCE (EXCLUDING WIND FALL TAX AND ASSOCIATED SPENDING

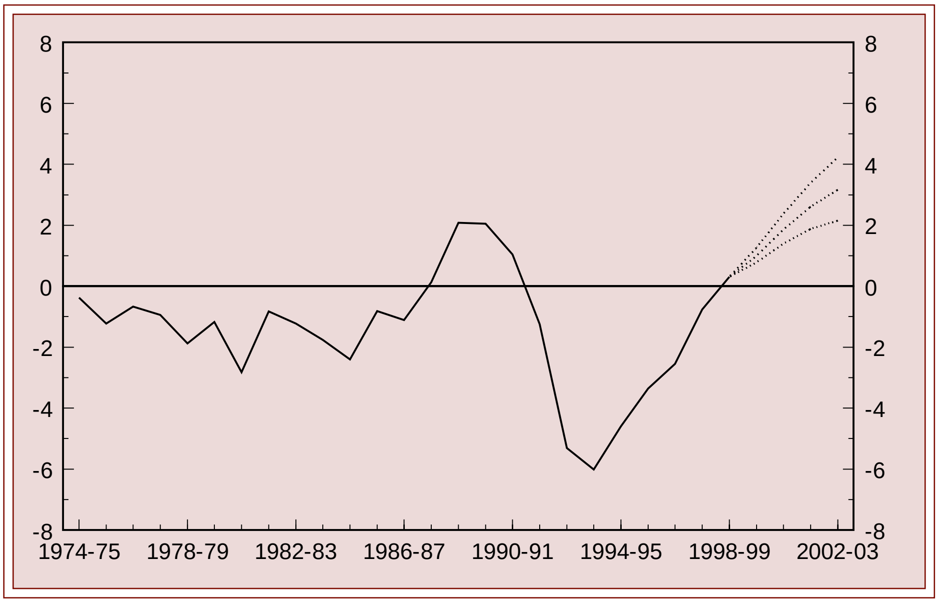
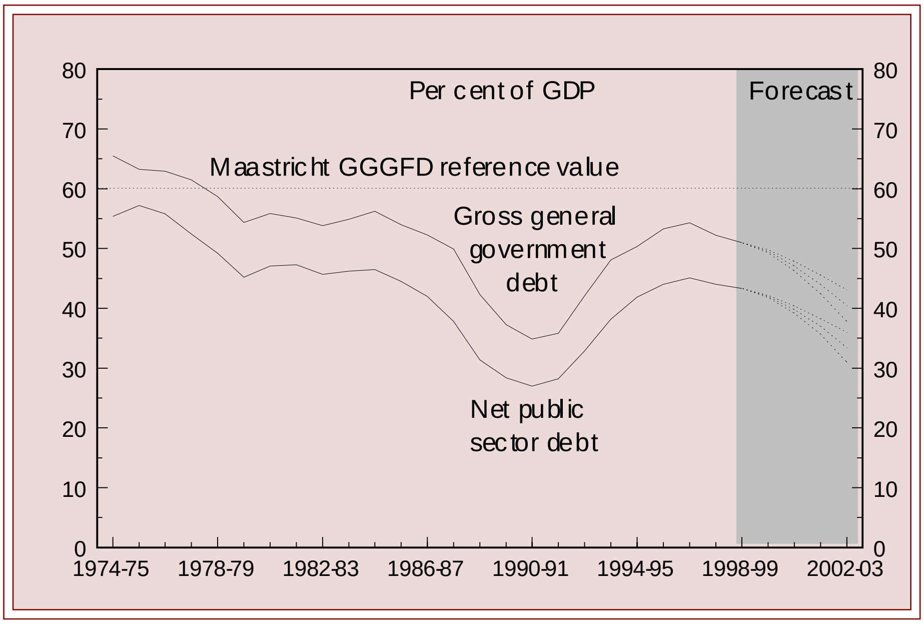


CHART 1G: PUBLIC DEBT



1.2.11 *Economic monitoring and forecasting*

In support of the Treasury's economic objectives it is important that the Treasury continues to monitor economic developments closely, including the outlook for inflation and growth. Besides regular internal assessments of economic prospects, the Treasury published two economic forecasts, in the July FSBR and the November Pre-Budget Report, as required by the 1975 Industry Act, and has continued to develop the Treasury's model of the UK economy. These forecasts were accompanied by detailed assessment of the state of the economy in a longer term perspective.

The report by KPMG Management Consulting, on whether to market test the Treasury's forecasting and monitoring of the economy and public finances, concluded that the quality of the Treasury's forecast output is generally perceived to be high. KPMG advised that the balance of potential resource savings and costs would not justify a market test.

In order to provide a realistic and cautious basis for its fiscal projections, and to provide greater openness and accountability, the Government asked the National Audit Office (NAO) to audit a number of key forecast assumptions at the times of both the July 1997 Budget and the November 1997 Pre-Budget Report. In all cases, the NAO has confirmed the assumptions to be reasonable. The Chancellor has made clear that the NAO will have a continuing role in this area in the future.

1.2.11 The UK's position on Economic and Monetary Union (EMU)

The detailed text of the Stability and Growth Pact was negotiated during the first half of 1997 and agreed at the Amsterdam European Council in June 1997. The Government intends to ensure that Britain's fiscal rules, and the deficit reduction plan, will continue to be consistent with the terms of the Stability and Growth Pact, thus underlining commitment to avoiding an excessive deficit. The general government financial deficit, the Maastricht measure, fell to 1¾ per cent of GDP in 1997, well below the Maastricht reference value of 3 per cent.

In his Statement to the House on EMU in October, the Chancellor explained that in principle membership of a successful single currency would be of benefit to Britain, and that the determining factor for joining was whether it was in Britain's national economic interest. The Treasury published, on the same day as the Chancellor's Statement, an assessment of the five economic tests.

The Chancellor concluded that in order to have genuine choice in the future, Britain will need a period of preparation and a settled period of sustainable convergence. The task for this Parliament is to prepare, to give the UK a choice of joining the single currency, should this be agreed, early in the next Parliament. Any Government decision to join would need to be confirmed first by Parliament, and then by the people in a referendum.

The Government's economic policies for stability and structural reform will help Britain become more convergent with other EU countries and will increase flexibility, making the UK better able to cope with any pressures that might arise from EMU. In his EMU statement, the Chancellor also affirmed that he will monitor the inflation target in the light of the European Central Bank, and any decisions they make about how to run monetary policy for the euro area.

The Government has also launched a range of initiatives to help business prepare for the single currency. The euro will affect British business from 1999, even though the UK will not be a member in the first wave. Business needs to be ready to compete successfully in transactions involving the euro right from the start. The Government is also working with business on what must be done to prepare for the option of joining EMU early in the next Parliament.

To help business prepare the Government has taken the following actions.

- In June the Treasury published a practical business guide, and established a business advisory group to seek information from business, consumer and trade union representatives about detailed practical issues arising from the euro.
- In October the Chancellor established a new Standing Committee to steer preparations, and draw up a national changeover plan of the steps that would need to be taken for the UK to join EMU.

- Within Government, a network of "euro coordinators" has been set up across Whitehall departments to consider the implications of the euro both on internal systems and on their work.
- The Bank of England is continuing to provide assistance and guidance to the financial sector, including the publication of a quarterly report on practical issues.
- In the Treasury, a new Euro Preparations Unit has been set up to support the Standing Committee and stimulate and steer business and public authority preparations.

1.2.13 Targets, plans and milestones for 1998-99

In seeking high and stable levels of growth and employment, the Treasury will continue to pursue the objective of economic stability through sound public finances and often, accountable and effective arrangements for monetary stability. The main tasks for 1998-99 will be to:

- monitor economic and financial developments continuously and publish assessments of economic developments and prospects twice a year;
- make assessments of the stance of macro-economic policy in line with the Government's economic objectives;
- monitor the inflation target in the light of the developments in the economy and the practices of the ECB;
- assess the outlook for the public finances on unchanged plans, taking into account the effects of the economic cycle;
- legislate for the Code for Fiscal Stability to support a coherent framework for sound public finances;
- actively develop the role of the public sector balance sheet in fiscal policy;
- commence work on the detailed transition arrangements for the possible introduction of the Euro in Britain, including the introduction of notes and coins, should we wish to enter;
- step up the work on what business should do now to prepare for the introduction of the Euro in 1999, whether we are in or out;
- work with business on what Government must do to prepare for EMU, should we decide to join in the next Parliament;
- hold informal discussions with economists from academic institutions, industry and the City.

OBJECTIVE 2: TO SET LEVELS OF PUBLIC EXPENDITURE WHICH CAN BE FINANCED BY A FAIR AND EFFICIENT TAX SYSTEM THAT PROMOTES INCENTIVES TO WORK, SAVE AND INVEST

The Government's fiscal strategy under objective 1 limits the scale of borrowing and debt. The Treasury's second objective is to ensure that the level of public spending and taxation is not excessive and that the allocation of spending and tax is optimal.

In principle that requires the benefit from spending at the margin in each programme to be equal to the marginal cost of raising taxes. In practice it is not possible to measure the benefits or the costs precisely so the decisions both on the overall level and the allocation of spending and distribution of tax are a matter for political judgement. One of the Treasury's tasks is to ensure that those judgements are informed by the best possible information and analysis.

The Government has not set a target for public spending as a proportion of national income. Nor has it set a target for the overall tax burden. Its objectives are rather to ensure that any public spending is effective in meeting the Government priorities, that public services are run as efficiently as possible and that overall spending can be financed by a tax system that promotes incentives to work, save and invest and fairness.

1.2.14 Report on 1997-98

SPENDING

The Government has set in hand a Comprehensive Spending Review (CSR) to reorder spending programmes to meet the Government's objectives and priorities in the longer term. This should be completed in the summer of 1998. Until then, the Government is committed to working within the existing Control Totals for public spending set for 1997-98 and 1998-99. Within those totals it is reallocating spending to its key priorities. In addition, in line with its Manifesto commitments, the Government is financing a Welfare to Work programme from the proceeds of a windfall tax on the privatised utilities and has started to reinvest the receipts from the sale of council houses.

The Control Totals for 1997-98 and 1998-99 have been set at £265.8 billion and £273.5 billion respectively. These cover most departmental budgets, local authority spending, and the external finance of nationalised industries. They exclude cyclical social security, debt interest and spending from the capital receipts initiative and the windfall tax.

Within the Control Totals, the Government has announced a number of reallocations to provide extra funding for priority areas including:

- £1.2 billion allocated to the NHS and £1 billion allocated to schools for 1998-99 in the July Budget;
- an additional £300 million for patient services in the NHS in 1997-98 funded mainly from savings in the defence budget and nuclear programmes; and

- an extra £190 million for 1997-1998 and 1998-1999 to help pensioners to meet their winter fuel bills financed by savings on our EU contributions.

Outside the Control Total, the July Budget announced a £5.2 billion Welfare to Work programme funded by a one off tax on the excess profits of the privatised utilities. The programme, funded over the whole parliament, includes measures to help the young unemployed, long term unemployed adults, lone parents, and people on incapacity benefit back to work and also includes a targeted programme of capital spending to improve the run down infrastructure of schools.

During this period the Treasury has been involved in coordinating the CSR, which was launched on 11 June and took the place of the 1997 Public Expenditure Survey. There are 24 departmental reviews and six cross-departmental reviews on the criminal justice system, the local government finance system, illegal drugs, provision for young children, countryside and rural policy and housing.

The reviews are zero based and are examining each spending programme to see whether it meets the public interest, contributes to the achievement of the Government's objectives, is the most effective way of achieving those objectives and offers scope for improving efficiency and effectiveness.

TAXATION

The primary role of taxation is to raise sufficient money to fund current expenditure and service the Government's debt over the cycle. But the Treasury also has a role, together with the revenue departments, to ensure that this money is raised efficiently and in ways that encourage work, savings and investment, and which are fair and seen to be fair. The Government's objectives for tax are set out in paragraphs 1.66 to 1.73 of the Financial Statement and Budget Report of July 1997.

In pursuit of these objectives the July 1997 Budget included announcements which:

- introduced the Windfall Tax on the privatised utilities, to fund the Welfare to Work programme and new deal for schools;
- cut VAT on fuel and power from 8 to 5 per cent, the lowest level permitted under EC law;
- began the reform of Corporation Tax, with the abolition of dividend tax credits from April 1999 and a 2 per cent cut in both the main and small companies rates of tax;
- introduced a statement of environmental objectives for the tax system, increased the fuel and tobacco duty escalators, and began a range of other work on environmental tax issues, including looking at possible taxes or charges for water pollution and extraction of minerals;

- introduced a range of anti-avoidance measures designed to ensure greater fairness by closing loopholes and getting all taxpayers to pay their fair share of tax, as Parliament intended them to;
- began a series of major reviews to pursue the Government's tax objectives. These included the review of the tax and benefit system under Martin Taylor, chief executive of Barclays, along with review of charities taxation, the North Sea oil tax regime, the review of Capital Gains Tax and VAT on energy saving materials.

In his Pre-Budget Report and Statement, delivered on 25 November, the Chancellor set out the economic prospects and policy framework that will guide the Government's approach to the Spring 1998 Budget and longer term economic strategy. He stressed that long term policies were needed to achieve the fundamental policy objective of high and stable levels of growth and employment. This pointed to action on four fronts:

- a commitment to **economic stability** to avoid a return to boom and bust instability. The Chancellor announced that a Code for Fiscal Stability would be introduced - to reinforce the changes already made in monetary policy - to ensure that fiscal policy was consistent with Britain's long term interest.
- new measures to **promote competition, innovation and investment,** including reforms to Corporation Tax which will foster high quality investment and the setting up of the McCullagh group to look at the financing of high growth companies.
- initiatives to **promote employment opportunities**: the Chancellor announced a major extension of the New Deal to help lone parents and the long term sick and disabled into jobs. And a major childcare initiative, costing £300 million, which will result in a tenfold increase in the number of after-school clubs. He also confirmed that he would be examining a range of options for tax and benefit reform which would help to make work pay.
- measures to deliver a **fairer tax system**, including the introduction of new Individual Savings Accounts to spread the savings habit to those on low incomes and the reduction of VAT on energy savings schemes that will allow 40,000 more homes of those on low incomes to be insulated. The Chancellor also announced a special payment towards pensioner fuel costs, costing £190 million in this year and next.

The Chancellor invited the public to respond to this agenda, in writing or via email, as part of a wider public debate in the run up to the Budget.

Progress has also been made in:

- ensuring the November 1996 and July 1997 Budget measures were carried through to legislation;
- working closely with the Inland Revenue and Customs & Excise to ensure that UK interests, including those of maintaining unanimity and subsidiarity on tax issues, were fully respected in the work of the EU Taxation Policy Group. EU member states agreed a package of measures to tackle harmful tax competition, including a Code of Conduct on business taxation. Discussions continued on the VAT definitive system, excise duty minimum rates and the energy products directive;
- the pursuit with the Inland Revenue and Customs & Excise of greater efficiency in tax administration, not least through examination of ways of developing closer working between the revenue departments under the aegis of their joint Comprehensive Spending Review.

1.2.15 Targets, plans and milestones for 1998-99

SPENDING

The main tasks for the coming year will be:

- to embody the plans for the 1998-99 financial year in cash limits, monitor and control expenditure against those limits and pressures from demand led programmes and ensure that any additions to programmes can be financed within the overall control total;
- to conclude the Comprehensive Spending Review and draw up plans for the three years 1999-00, 2000-2001, 2001-2002 which reflect the new Government's objectives both for public services and for taxation and borrowing; and
- to maintain the public expenditure data base and provide information on public spending to Parliament and the public.

TAXATION

The main objectives for the year ahead are to:

- ensure the Spring 1998 Budget measures are carried through into legislation;
- pursue to their conclusions several ongoing tax consultation exercises - on which progress reports were given in the Pre-Budget Report - reporting to Ministers in time to allow decisions to be taken where appropriate for the Spring 1998 Budget;
- to continue to ensure, both during the UK's Presidency of the EU and thereafter that UK interests are represented in EU tax matters, including the follow up to the Code of Conduct on business taxation and electronic commerce;
- pursue closer working between the Revenue Departments as a central output from their joint CSR, further improvements in the efficiency of tax administration, and simplification of tax.

OBJECTIVE 3: TO SECURE HIGH QUALITY, COST-EFFECTIVE PUBLIC SERVICES WHICH DELIVER EXPENDITURE PRIORITIES AND POLICIES, INCLUDING PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTORS

Getting the best value for public money is one of the Treasury's most important functions. This means ensuring not only that public services are delivered as efficiently as possible, whether by the public or the private sector, but also that we have correctly identified the priorities for public expenditure and the best policies for delivering these priorities.

To achieve this objective requires:

1.2.16 • Setting the right priorities.

Public expenditure will always be limited. To achieve the best results it is vital that it is directed to meet the highest priorities. There is little to be gained by doing the wrong things well. Being clear about what public expenditure programmes are trying to achieve is the starting point in achieving value for money. The Treasury is coordinating the Government's Comprehensive Spending Review looking at objectives within and between Departments.

1.2.17 • Using public money efficiently

Once the priorities have been set, achieving those priorities as efficiently as possible is the key to achieving value for money. Getting the most out of limited resources by producing more, or better, public sector outputs for given inputs or the same output for fewer inputs is the route to providing high-quality cost-effective public services.

1.2.18 • Making better public-sector decisions

Efficiency is promoted by decentralised decision-making when those responsible for public spending programmes have the right information and the right incentives to make sound choices. Improving public sector efficiency through better public sector decision-making is an important element of the Treasury's relationship with other government departments and is reflected in the Treasury's efforts to ensure that departments' systems are geared towards taking better decisions on policies and expenditures.

1.2.19 • Promoting Public Private Partnerships (PPPs)

A challenge facing governments throughout the world is to make the maximum use of every penny they spend. PPPs unlock the possibility of higher quality projects and services delivered more quickly than would be possible if either the public or private sector acted alone. More generally, they also enable Government to make the best use of the skills and resources of both sectors. The Treasury is taking a series of steps to help realise the full potential of such partnerships, beginning with the Private Finance Initiative (PFI) but extending well beyond that.

1.2.20 Report on 1997-98

Setting the Right Priorities

The Comprehensive Spending Review, set up by the Government in the summer, is the principal means by which it will ensure that spending contributes to the Government's overall objectives as effectively and efficiently as possible. The Review is being coordinated by the Ministerial committee on public spending which is chaired by the Chancellor and is described in the report under objective 2.

The Treasury is coordinating and providing most of the central analytical support for the exercise. The departmental reviews are being led by the Secretary of State concerned but also involve the relevant Treasury spending team, the No 10 Policy Unit and the Efficiency Unit.

The Treasury spending teams have worked closely with departments in setting the terms of reference of each review and agreeing the objectives. They have also been closely involved in many of the individual reviews which make up the overall departmental effort, taking the lead in the case of some cross-cutting reviews.

Examples of the Treasury's involvement were:

- Chairing the cross-departmental review of the criminal justice system (CJS), looking at the way the system is managed as a whole including establishing joint outcome-based objectives and joint systems for finance and policy development. It was also closely involved in reviews of the Home Office, Lord Chancellor's Department and the Attorney General's Departments which feed into the CJS and in the cross-departmental review of drugs and asylum policy.
- Participating in the Strategic Defence Review which is looking at all aspects of defence policy and organisations to ensure that resources are effectively deployed to meet defence priorities in the post-Cold War world, and to improve the efficiency with which defence outputs are delivered. An important part of this was to identify the costs of various options for the scale of defence effort so that Ministers can make informed choices about spending on defence.
- Working closely with the Department of Health on the review of NHS and Social Services spending. The NHS review is taking a wide ranging view of how the Government's objectives and priorities for the service can best be delivered, looking at the likely future demands on the NHS and at how the efficiency, effectiveness and quality of the service can be improved.

- Being closely involved with all aspects of the Department of Education and Employment's (DfEE) Spending Review to ensure that spending on education and on employment programmes is in line with the Government's key priorities, particularly to ensure that all young people reach the highest standards of basic skills and that those without jobs are helped into work.
- Taking an active role in the reviews of the Department of Environment, Transport and the Regions (DETR) including those on the environment, countryside and rural policy, housing, land-use planning, regeneration and transport.
- Cooperating with the Department of Social Security to explore options for modernising the benefit system so that, together with other elements of the welfare state, it is built around the work ethic and gives better support to those who cannot work.
- Leading a cross-departmental review on services for young children.
- In addition to work on the Review, the Agriculture team continued to work for the reform of the Common Agriculture Policy, working with colleagues in other Member States to highlight the costs of the CAP.

1.2.21 Using Public Money Efficiently

The Treasury works very closely with all Departments so as to ensure that public money is well spent. Increasing use is being made of Public Private Partnerships (see below) but even where this option is not available or not suitable, the imperative remains to get as much value as possible out of limited public resources. Identifying the scope for improvement and ensuring that Departments have incentives to search for efficiency is one essential part of the Treasury's role. Some examples in this area are:

- Following a review by Sir Peter Middleton, the Lord Chancellor's Department announced radical reforms designed to improve the efficiency and effectiveness of the civil justice system and civil legal aid.
- The objective of full cost recovery including the removal of cross-subsidies for civil court fees was also agreed. The Treasury has proposed a framework for measuring police output and performance which is being developed in the CSR.
- Working with DfEE and other Government bodies to benchmark common activities and so help identify the scope for delivering increased value for money and efficiency.

- Working with DETR on the Integrated Transport White Paper to achieve, among other things, a more efficient transport market and to address the effects of traffic growth on environmental emissions.
- Involvement in the review of local government finance, including the development of the regime to support continuing efficiency improvement in local authorities and the best value framework.
- Working with the Scottish, Welsh and Northern Irish Departments and their English counterparts to compare the administrative costs of providing further education places, approaches to controlling the drugs bill and methods of measuring the cost-effectiveness of urban regeneration programmes.
- Working with the Department of Health on the White Paper on replacing the internal market. This incorporates a more comprehensive approach to performance management, focussing on effectiveness as well as efficiency.
- Working with DSS to pursue measures that will reduce benefit fraud - and improve accuracy of benefit payments.

The Procurement Group has continued to promote the government's policy that procurement is all about achieving value for money for the taxpayer as well as supporting departments in achieving improved standards and skills following the 1995 White Paper 'Setting New Standards', and contributing to major reviews such as the Bates Review of PFI. In addition, a review has been undertaken of the role of Procurement Group and the perception of procurement by its stakeholders and customers (September 1997 and on-going) in order to increase the Group's operational effectiveness.

Procurement Policy Team (PP) coordinated the UK response to the Commission's Green paper 'Procurement Policy in the EU, the Way Forward', emphasising the importance of opening up public procurement markets generally without placing undue burdens or constraints on purchasers. It also called for coverage of the rules for the Utilities sector to be reviewed in the light of market liberalisation.

In contributing to practice guidance, PP endeavoured to equip departments, and through them other public bodies, to comply appropriately with their legal obligations.

During 1997-98, Procurement Practice and Development Team (PPD) has established the Government Construction Client Panel (March 1997); introduced the Framework Agreement for the Government Procurement Card (October 1997) which, initially, is expected to save some £60 million per year in low value transaction costs; issued best practice guidance on procurement of services (March 1997) as well as the guidance on construction (December 1997); the establishment of new sub-committees of the inter-departmental Procurement Policy Committee (PPC) (January 1998) to address procurement policy, practice and construction issues. The membership of the PPC itself has been reviewed to ensure representation at a more senior level.

In addition, PPD has started to address, with departments, a range of corporate issues such as training, career management and progression of procurement staff, communication and the development and use of improved IT systems.

1.2.21 *Making better public sector decisions*

Better financial decisions, better information and better policy analysis can be expected to lead to better decision taking on the public sector and in this way to better use of resources. One important source of better financial systems and information is resource accounting and budgeting (see Objective 4). Spending teams have been working closely with departments to ensure that the maximum benefit is extracted from the development of resource accounting.

The Treasury works with departments to improve the quality of information about inputs and outputs of departmental programmes. Examples of this are:

- Working with DfEE and other Government bodies to improve sets of performance indicators available for a number of sectors of education including schools, higher education and further education, to help improve strategic decision-making.
- Working closely with the Home Office in developing an improved methodology for forecasting the prison population and, in conjunction with the National Audit Office (NAO), reviewing the Prison Service's confidential appraisal and control systems and agreeing a programme of reform. As part of the review of the criminal justice system work was undertaken with the home and legal departments to develop a common framework for appraisal and evaluation for law and order policies and cost effectiveness of interventions to reduce criminality.
- Identifying, with the Ministry of Defence, ways of costing defence outputs which will allow this information to be published in resource accounts and used in making decisions about defence spending in the future. The Treasury has also worked closely with MoD to identify, value and assess the continuing need for their assets.
- Helping to develop a new appraisal methodology for transport projects and deliver the government's objectives of economy, accessibility, safety and environmental integration.

Making better public sector decisions sometimes involves improving the institutional arrangements in which decisions are made. The Treasury was closely involved in the work leading up to the White Paper on Food Safety, in particular setting out clear principles that the agency should follow in its work, and setting out the options for financing its activities. The Treasury has worked closely with other interested departments to implement the Government's devolution policies in Scotland and Wales. These proposals will enhance value for money and local accountability by devolving the fullest possible range of local functions and responsibilities to elected administrations in Scotland and Wales.

The Treasury has responsibility for giving advice on economic appraisal and evaluation to government as a whole. It has now published the new and updated version of the Green Book called Appraisal and Evaluation in Central Government and is working with other Departments to promote its use.

1.2.23 Promoting Public Private Partnerships

The Treasury has played a decisive role in reinvigorating the Private Finance Initiative (PFI). In pledging that it is fully committed to PFI principles, the Government moved swiftly to address problems with the process. The Treasury has:

- Abolished universal testing for PFI potential in order to unclog a market which had become saturated with many ill-conceived projects.
- Asked departments to focus on a limited number of priority projects, to target limited expertise in public and private sectors onto a set of transactions that can then become a sound basis for future business. New arrangements for regulating the flow of projects, particularly in health and local authority sectors, are now in place.
- Commissioned an independent review of PFI, by leading businessman Malcolm Bates and begun implementing all 29 recommendations.
- Developed an approach designed to deliver template contracts in the main areas of business to reduce bidding costs and prevent reinvention of wheels.
- Tackled legal uncertainties through helping progress new primary legislation for NHS Trusts and local authorities.

In addition the Treasury now has its own Private Finance Taskforce: a focal point for PFI project and policy expertise at the centre of Whitehall. It comprises:

- a <u>Projects Team</u> (eight expert transactors brought in from the private sector under leadership of a Chief Executive, Adrian Montague, charged with testing the commercial viability of all significant projects <u>before</u> procurement begins. This will deliver a step change in quality.

- a Policy Team, preparing Taskforce-endorsed guidance, to promote a more consistent approach across the public and private sectors. They will develop more standardised "models" for key stages of the procurement process; create a PFI library in the Treasury to house key documents, and manage a Taskforce Website (http:www.treasury-projects-taskforce.gov.uk) where all documentation appears and where practitioners can catch up with latest news. Partnerships with the private sector will also deliver Taskforce approved conferences and training programmes.

The Government is also keen to promote new models of PPP where these can deliver value for money and take forward the Government's objectives. The Treasury is taking forward, with the relevant Departments, reviews of the options for PPPs and the scope for greater commercial freedom in the remaining nationalised industries, particularly London Underground, the Post Office and Air Traffic Control. A huge programme of school maintenance and refurbishment projects is underway; £1.3 billion of public money under the New Deal for Schools which it is hoped will be more like £2 billion once other sources of finance are included.

1.2.24 Recent examples of PPPs

The first PFI hospitals are now being delivered. Construction work is underway at Dartford and Gravesham. Carlisle hospital was the first health sector scheme to be financed on the bond market.

Recent Ministry of Defence contracts include a £100 million helicopter training simulator project.

English Partnerships has set up a joint venture with Royal Bank of Scotland called Priority Sites Limited to carry out industrial and other property development in areas where there is evidence of market failure. Both partners provided equity and loan stock to finance the company.

The decision to award assistance to Rolls Royce for the development of its new generation of Trent engines saw the government and company sharing risk, and finance offered on commercial terms.

The introduction of the Wireless Telegraphy Bill gives an opportunity for the Radiocommunications Agency to move away from setting licence fees according to its own costs towards enabling certain parts of the radio spectrum to be auctioned.

The Commonwealth Development Corporation (CDC) is a public corporation responsible for promoting the economic development of poorer countries by investing in sustainable private sector businesses. However, the Government considers CDC can play a much greater role in mobilising investment for these countries than its current status and the resulting financial constraints on it permit, The Government therefore intends to turn CDC into a Public Private Partnership: it will sell a majority shareholding in CDC but retain a substantial minority stake. When this new partnership has been established, CDC will be able to access the capital markets and raise substantial extra finance for investment in the developing world. Poorer countries will gain a double benefit from this Partnership since the proceeds of the sale of shares in CDC will be ploughed back into the development assistance programme.

1.2.25 Targets, plans and milestones for 1998-99

The Treasury will continue to work with Departments to set the right priorities, to use public money efficiently, to make better public sector decisions and to promote Public Private Partnerships.

The principal milestone will be the conclusion of the Comprehensive Spending Review and the translation of the results of these reviews into policy decisions by Ministers. Treasury teams will be working closely with Departments, No.10 Policy Unit and the Efficiency Unit, to help ministers arrive at decisions.

Treasury Spending Teams will also be working closely with Departments to implement resource accounting.

The Public Procurement Team will, among other things,

- work with DTI to ensure the single market is effective in achieving value for money .
- take forward the follow up of the Green Paper under UK presidency.

The Procurement Practice and Development Team will pursue other areas of procurement efficiency such as the use of electronic commerce and how to reduce bidding costs across the board.

In Central Government, the Private Finance Taskforce will be focussing its effort on around 50 significant private finance projects announced in Februrary helping Departments and Agencies deliver them on value for money terms. It will use these to help develop model contracts that become templates for future business.

In Local Government, the Taskforce will chair a Project Review Group that will help earmark at an early stage, future revenue support for projects with the greatest potential for success. As with central government projects, it will also concentrate on a number of significant local authority private finance initiative projects to help in their delivery on value for money terms.

The Treasury is also developing a new approach to commercial activity by government departments and agencies, designed to help maximise value from public assets. It is expected that larger and more complex projects will be taken forward as partnerships with the private sector. The Treasury is consulting Departments on the new approach and guidance will be available shortly: the Government welcomes the input of the private sector in identifying and developing commercial opportunities in areas covered by it.

The Treasury will progress the sale of its remaining residual debt and equity holdings.

It will also be exploring other potential models of Public/Private Partnership, producing guidance and best practice wherever wider lessons can usefully be learnt from an individual Department's experiences.

OBJECTIVE 4: TO PROMOTE HIGH STANDARDS OF PROPRIETY, REGULARITY AND ACCOUNTABILITY AND AN EFFECTIVE ACCOUNTING AND BUDGETING FRAMEWORK

The pursuit of Objective 4 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.

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.

Report on 1997-98

1.2.26 Promoting High Standards Of Propriety, Regularity and Accountability

- An amendment toGovernment Accounting is due to be published in March with five revised chapters (relating to Exchequer funds, disposal of assets, receipts, Government loans, public dividend capital and loan guarantees, and project appraisal and evaluation).
- A memorandum was submitted to the Public Accounts Committee in October proposing the abolition of unnecessary Treasury controls over departmental spending. Government Accounting was reviewed to identify such controls.
- The Treasury Officer of Accounts team dealt with some 3,000 casework queries concerning propriety, regularity and financial control. The Treasury has helped Accounting Officers prepare for - and has been represented at - some 30 hearings of the Public Accounts Committee.
- The Public Audit Forum is due to have its first meeting in February. It will involve representatives from the Treasury and other Government departments, the national audit agencies, and other bodies to discuss issues concerning public audit.
- An Advisory Group which comprises officials from the Treasury and other departments and external experts in the field of internal audit was established and has provided advice on setting the agenda for future activity.

- Best practice on internal audit issues including risk management, investigation and prevention of fraud has been disseminated through seminars, conferences and papers. Guidance has been issued on the role of Audit Committees in promoting high quality internal audit and the Treasury has worked with departments to develop the use of benchmarking to compare and improve the performance of internal audit units in departments.

1.2.27 *Promoting an Effective Accounting and Budgeting Framework*

Resource Accounting and Budgeting

- The first full draft of the Resource Accounting Manual was published in July 1997.
- The Financial Reporting Advisory Board was established as an independent Board with representatives from the accountancy profession in the private and public sectors, academia and government bodies to provide advice on the applications of financial reporting standards in respect of the central government sector, against the background of the introduction of resource accounting. The Board endorsed the Resource Accounting Manual and accepted almost all of the proposed changes from Generally Accepted Accounting Practice.
- Work has continued on developing robust principles and mechanics for a resource-based Public Expenditure Survey (PES) including the application of “live testing” particularly in relation to the arrangements for public expenditure planning and control.
- The National Asset Register was published in November and provides a more complete picture of the assets owned by Government than previously available. Such information is a prerequisite for resource accounting.
- An Output and Performance Analysis (OPA) Manual has been produced and a Whitehall-wide OPA network set up to enable departments to learn from one another.
- A Memorandum to Parliament was submitted detailing proposals for a resource-based system of Supply and briefing on resource accounting and budgeting provided for the Public Accounts Committee, the Treasury Select Committee and the House of Commons Supply Procedure Committee.

- A continuing dialogue with departments has been maintained to ensure successful implementation of resource accounting and budgeting. This has included raising the profile of departmental training in finance and accountancy and sharing best practice.
- A review of the guidance on the reporting and accounting requirements for Non Departmental Public Bodies, executive agencies and trading funds has been initiated to ensure consistency with the Resource Accounting Manual.

Interim guidance on how public sector entities should account for Private Finance Initiative (PFI) transactions was published in September 1997. The Treasury has continued to work with the Accounting Standards Board in its preparation of accounting guidance on PFI.

The Treasury has conducted a review to assess the impact of changes in the Government Accountancy Service introduced following a report in 1996. The review concluded that all of the major changes recommended in the report are now in place, and that the profile of accountancy has risen significantly during the 18 months since the report was published.

1.2.28 Targets, plans and milestones for 1998-99

Promoting High Standards Of Propriety, Regularity and Accountability

- Government Accounting will be completely revised and published in a new format. It will incorporate decisions on changes to Treasury controls.
- The Treasury Officer of Accounts team will help Accounting Officers prepare for - and will represent the Treasury at - some 50 hearings of the Public Accounts Committee and will deal with casework queries concerning propriety, regularity and financial audit.
- Effective internal audit practice will be promoted and developed by disseminating best practice through various channels and media. The Treasury will continue to seek appropriate external advice to inform its activities.

1.2.29 *Promoting an Effective Accounting and Budgeting Framework*

Resource Accounting and budgeting

- Further development of resource budgeting policy and the application of "live testing" of the arrangements for public expenditure planning and control.
- Reviewing policy on the legislative requirements of fully implementing resource accounting and budgeting.
- Maintain a continuing dialogue with departments, in conjunction with others in the Treasury, to ensure successful departmental implementation of resource accounting and budgeting.
- Maintain and update as necessary the Resource Accounting Manual, taking account of the Financial Reporting Advisory Board's continuing advice and other guidance on financial reporting and accounting requirements, including consultation on and updating of the Non Departmental Public Bodies, Agency and Trading Fund Guidance.

OBJECTIVE 5: TO EXPAND ECONOMIC AND EMPLOYMENT OPPORTUNITY FOR ALL THROUGH PRODUCTIVE INVESTMENTS, COMPETITION, BETTER REGULATION AND INCREASED EMPLOYABILITY

Raising the rate of sustainable growth is central to the Government's economic policy and crucial to expanding economic and employment opportunity. To focus the Department's efforts, an Enterprise and Growth Unit has been established to pursue the Chancellor's growth agenda.

It is doing this in partnership with

- other Treasury teams: achieving the Treasury's growth objective will be central to the work of many of them.
- other Government Departments, including the Revenue Departments; and also with the Bank of England. The Unit will be developing further its already close relationship with the DTI.
- business: the Unit is keen to develop the Treasury's links with organisations, firms and individuals who can contribute to developing practical measures to overcome barriers to growth

1.2.30 *Report on 1997-98*

The Chancellor's Pre-Budget Report emphasised the importance attached to developing a sound legal and regulatory framework for growth. Accordingly, the Treasury has been working with other Departments on

- the Government's approach to competition legislation
- the review of utility regulation
- the development of the better regulation agenda.
- encouraging corporate governance arrangements which facilitate long-term growth

A competitive, well-regulated economy will create the conditions for business success. Government can work with business to remove obstacles to firms and individuals taking advantage of the business opportunities open to them. To this end the Treasury has:

- reformed the Corporation Tax regime and is examining possible changes to Capital Gains Tax (CGT) with a view to encouraging long term investment including in entrepreneurial firms
- sponsored a working group, chaired by Dr Keith McCullagh, Chief Executive of British Biotech plc, to examine the financing barriers to the growth of high-tech companies and to propose practical proposals for change.

- been working with the DTI, banks, accountants and small firms' representatives on the Financial Management Working Group. The group aim to produce a report later this year.
- initiated work, with DTI and DFEE to encourage the science base to develop closer links with industry and sources of finance.
- begun to work at a European level, with the DTI and others on aspects of growth, particularly the role of small firms, regulation and equity market development.

The Treasury is also working with the DTI on

- innovation as a key priority in the CSR; and
- a wide-ranging look at research and development.

An economy where businesses compete, innovate and invest is also one where individuals will have the best chance of fulfilling their potential. But to realise that potential, all individuals need good basic skills - in communication, numeracy and IT - to get jobs in the modern economy. The Government's aims for raising standards in schools and introducing a range of lifelong learning measures are geared to help all people to acquire or improve their basic skills. The Treasury will continue to be at the forefront of a number of initiatives to take this agenda forward: it has

- worked with DfEE in the lead-up to the Government's first White paper, "Excellence in Schools" (July 1997), the two Education Bills now before Parliament, and the Green Paper on Lifelong Learning, published in February.
- worked with DfEE, the Scottish Office, Welsh Office and Nothern Ireland Office to develop and implement the New Deal for Schools so that the £1.3 billion allocated in the Budget is used effectively to restore schools infrastructure, contribute to increased educational attainment and attract funding from other sources, including through public-private partnerships.
- worked with DfEE and DTI to develop a better understanding of potential areas of skill shortage.
- participated in the development of the prospectus, sorting out funding models and ensuring that marketing and targeting is in line with Government priorities.
- worked with the DfEE, the DSS and other government departments to design and implement the Government's Welfare to Work programme particularly efforts to engage the support of employers, and on the financing, monitoring and evaluation of the programme.

- worked with Martin Taylor's task force on the reform of the tax and benefit system, to help make work pay and increase employment. The pre-Budget Report set out some of the specific areas the Government is examining. The Treasury will mark the staging posts on the road to reform by publishing a series of papers - the first of which, Employment Opportunity in a Changing Labour Market, covered the labour market background and objectives.
- played an important part in agreement of the new Employment Chapter in the Amsterdam Treaty and the first set of EU employment guidelines laying the basis for the new co-ordinated European strategy for tackling unemployment and raising employment.
- shared experiences with other major industrialised countries on tackling unemployment: the Chancellor hosted a major G8 conference in London in February on "Growth, Employability and Inclusion"
- worked with the DTI to ensure the early introduction of the National Minimum Wage Bill. It has been involved with DTI in establishing the Low Pay Commission and its terms of reference and with the DTI and other Government departments in putting together the Government evidence to the Commission.

1.2.31 Targets, plans and milestones for 1998-99

On industry, regulation and competition, the Treasury will be working with other departments and business to:

- ensure the effective implementation of the new Competition Bill
- implement the recommendations of the utility review
- improve corporate governance arrangements, for instance in response to the Hampel report
- help deliver practical solutions to financing barriers identified by the McCullagh group
- encourage technology transfer from the UK's science base
- bring the DTI's CSR to a successful conclusion

On the education and employment front the Treasury will

- continue to work with DfEE on the implementation of the New Deal for Schools
- work with DfEE to ensure cost effective delivery of government policy on childcare, schools, education for 16-18 year olds, and further and higher education, designed to contribute to the raising of education and training standards for all members and potential members of the labour force; and to enhance basic skills in communication, numeracy and IT.
- continue to play an active role in the development of the University for Industry towards its formal launch scheduled for the end of 1999.
- continue to work with other government departments to develop the Welfare to Work initiative: the New Deal for the young and long-term unemployed, and for lone parents, will be implemented nationally from 1998.
- publish the results of the work with Martin Taylor on reform of the tax and benefit system to make work pay and promote employment;
- use the UK's presidency of the EU and beyond to co-operate with other member states and to share ideas on how best to tackle unemployment
- build on the London conference at the main G8 Birmingham summit where employability will be a key theme.
- continue to work with the DTI to ensure the smooth introduction of a National Minimum Wage.

OBJECTIVE 6: TO SECURE AN EFFICIENT MARKET IN FINANCIAL SERVICES AND BANKING, AND PROTECT CONSUMERS, BY DELIVERING FAIR AND EFFECTIVE SUPERVISION

The effectiveness and competitiveness of all UK industry depends upon the quality, cost and availability of an ever increasing array of financial products and services. Appropriate regulation is essential to the development of financial services, creating the right climate for them to flourish. Consumers, businesses and intermediaries need to know they are doing business within a properly regulated and stable system, where high standards are maintained and fraudulent or dishonest conduct is prohibited.

1.2.32 Reform of the system of regulation

On 20 May 1997 the Chancellor announced plans for a single financial services regulator. As a first stage in this process, the name of the Securities and Investments Board (SIB) was changed in October to the Financial Services Authority (FSA). The FSA, will assume responsibility for banking supervision following the passage of the Bank of England Bill. Subsequent legislation will provide for the FSA to authorise and regulate all firms conducting investment business. It will also transfer to the FSA responsibility for the prudential regulation of insurance[1], building societies and friendly societies and the other functions of the Registry of Friendly Societies. The FSA will also be given externsive supervisory powers in relation to Lloyd’s.

Preparation of the reforms is a key objective for the Treasury in 1997-98. It will continue to be a priority in 1998-99. The aims are to:

- achieve consistent standards for consumers and transparency for firms by eliminating gaps and overlaps in the regulatory system;
- build upon the reputation of the UK as a clean, well-regulated and competitive market for financial services;
- ensure that the regulatory system is more accountable to Ministers and through them to Parliament, and more responsive to the needs and concerns of the industry and the public;
- create a system that better reflects the structure of the industry and the increasing tendency for firms to offer a wide range of services crossing traditional sectoral boundaries;

[1]An Order was made transferring responsibility for insurance matters from the President of the Board of Trade to the Treasury, with effect from 5 January 1998. The order transfers to the Treasury responsibility for virtually all functions under the Insurance Companies Act 1982 (ICA), and all functions under other insurance legislation. A report on these activities will be submitted to Parliament in due course as required by section 98 of the ICA.

- make it easier for consumers to gain access to redress when things go wrong;
- ensure that the costs of regulation are proportionate to the benefits.

Draft legislation will be published in the summer of 1998. Early introduction of the Bill in Parliament might lead to enactment in 1999. Full implementation would follow as soon as practicable after that.

Reform is expected to lead to repeal of much of the existing financial regulation legislation. As well as transferring responsibilities to the FSA, the legislation will, amongst other things:

- set out a framework designed to strengthen the accountability and transparency of the FSA, including statutory objectives;
- give the FSA a coherent set of rule-making, intervention and enforcement powers;
- create new appeals procedures;
- provide for rationalisation of the existing compensation and complaints handling arrangements.

In addition to reforming the system of regulation, the Treasury's work in support of objective 6 falls into two main categories : the ongoing operation of the current regulatory system; and promotion of efficient financial markets.

1.2.33 *Report on 1997-98*

The operation of the regulatory system

Over the last year the Treasury has :

- continued to monitor the UK legislative and regulatory framework to ensure that consumers are protected and the markets are competitive and fair;
- continued to monitor and assess the discharge of the responsibilities transferred to the SIB (which on 28 October 1997 changed its name to the FSA) under the Financial Services Act 1986 (FS Act) and to oversee the London Stock Exchange (LSE) in its role as competent authority for UK listing;
- advised the Economic Secretary on her initiative to speed up the review of personal pensions mis-selling, which has seen a dramatic upturn in the resolution of cases of mis-selling;

- worked with the FSA on ensuring that the changes recommended in their review of the London Metal Exchange and the UK metals market were taken forward;
- completed a review of the operation of the UK's anti-money laundering legislation, including the Money Laundering Regulations 1993, and developed proposals aimed at dealing with the issues identified;
- developed a package of proposals aimed at combatting city crime, including improvement of information flows between regulators, law enforcement agencies and the Inland Revenue;
- issued a consultation document on the implementation of the Cross-Border Credit Transfers Directive;
- continued to play a leading role in the work of the international Financial Action Task Force (FATF) on money laundering;
- continued to service the Financial Services Tribunal, including 2 specific cases. These are expected to continue into 1998-99;
- continued to pursue vigorously third parties involved with the collapse of the Barlow Clowes group of companies, in order to secure recoveries to defray the costs of the government compensation scheme.

In doing this, the Treasury has dealt with a number of legislative changes. These included :

- the Building Societies Act 1997 which significantly enhanced societies' powers and at the same time enhanced their supervision and increased their accountability to members;
- an order to widen the range of investment instruments which benefit from the section 43 regime for listed money market institutions;
- an order to make the provision of sponsorship services in the settlement of gilts system subject to regulation under the FS Act.

1.2.34 *Promotion of efficient financial markets*

The Treasury has pursued a number of activities to promote efficient and competitive financial services markets in the UK and overseas, following the plans set out in the 1997 report, and in most cases achieving the specific actions that it envisaged. Action included :

- the introduction of legislation in the first Finance Act 1997 to implement a new more pro-competitive stamp regime for share trading on exchanges. This came into effect on 20 October 1997, coinciding with the opening of the LSE's electronic order book, the Stock Exchange Trading System (SETS);
- using the City Promotion Panel as a high-level forum for discussing issues of concern to the future competitiveness of the UK financial services industry and for promoting the UK as the most open and accessible of the top three global financial centres;
- in the international field, representations to overseas governments to remove obstacles facing financial services firms in their markets, and advocacy in the OECD and the World Trade Organisation (WTO) of competitive, open financial markets and the free flow of capital;
- strengthening international co-operation in financial services regulation and representing the UK in international for a including the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS);
- working in the EU on behalf of the competitiveness of the UK financial sector. This included reaching political agreement in the EU on three directives covering capital requirements for credit institutions and investment firms, on a basis which maintains the competitive position of UK institutions generally, and specifically reflects the nature of the commodities business undertaken in the UK;
- continuing to make progress in the G7 on developing the role of a coordinating supervisor for internationally active institutions, and on improving the flow of information between all the types of regulators involved; and between them and law enforcement agencies.

Specific tasks included :

- achieving a Common Position in the Settlement Finality Directive that protects payments and securities settlement systems, should a participant become insolvent;
- participating in European Commission led discussions on the need for a directive on electronic money, and in their initiative to simplify the legislative process in the EU;
- working for the success of WTO negotiations on financial services and, with DTI, playing a leading role in on-going negotiations on the Multilateral Agreement on Investment (MAI) to encourage removal of discriminatory and protection restrictions;
- working with the FCO to improve regulation in the Caribbean Dependent Territories and to assist Gibraltar in implementing EC financial services legislation and in taking advantage of the European single market;
- providing assistance to overseas regulatory authorities, in particular in connection with investigations into insider dealing, market manipulation and other forms of regulatory abuse;
- seeking to ensure that financial sanctions are implemented consistently in different countries.

1.2.35 *Targets, plans and milestones for 1998-99*

The operation of the regulatory system

In the year to come the Treasury will continue its oversight of the financial regulatory system. In particular it will :

- monitor and assess the FSA's discharge of its responsibilities, and oversee the LSE in its role as competent authority for UK listing;
- monitor the UK legislative and statutory framework to ensure that consumers are protected and the UK financial services markets are competitive and fair;
- discharge the prudential regulatory and other responsibilities under insurance legislation which were transferred to it in January 1998 until such time as the legislation transferring those responsibilities to the FSA comes into force.

A number of specific tasks will help the Treasury maintain and where possible improve the effectiveness of the regulatory system. These will include :

- working with other Departments and agencies to see that new products, including individual savings accounts and stakeholder pensions, are appropriately regulated;
- consulting interested parties on proposals to allow recognised clearing houses to clear over the counter (OTC) trades and on the extension of the special insolvency protection under Part VII Companies Act 1989 to recognised clearing houses and investment exchanges with a view to making legislative amendments;
- working with the Bank of England, the FSA and Crestco in the context of the Bank of England's consultation exercise on the proposal to amalgamate Crestco and the Central Gilts Office, to assess the regulatory and governance implications of such a merger;
- plans to introduce measures to enable the FSA to authorise an additional range of open ended investment companies;
- working with the UK Cooperative Council and other representative bodies on their proposals for modernising existing Industrial and Provident Society legislation;
- considering the implications of the findings of the Royal Commission on Long Term Care for the regulation of the marketing and selling of long term care insurance.

1.2.36 Promotion of efficient financial markets

In the year to come the Treasury will continue to promote efficient markets, building on the work done in 1997. In particular the Treasury will :

- make continued efforts to promote effective and ongoing co-operation with regulators in other countries, in particular by ensuring that UK interests are met within IOSCO and IAIS, and through organising and hosting the annual Wilton Park international securities regulators' conference and the annual Regulatory Familiarisation Programme for overseas regulators;

- during the UK's Presidency of the EU, aim to progress existing financial services directives and to start work on the new ones outlined in the Action Plan to complete the single market;
- in the G7, from our position as Chairman, seek to make further progress on improving cooperation and information flows between the regulators of internationally active financial groups, and between those regulators and the law enforcement agencies;
- continue to promote the UK as a global financial services centre, via the City Promotion Panel and other promotional opportunities.

Specific tasks will include :

- exploring with the Department of Social Security and others ways of improving the provision of financial services to the economically disadvantaged;
- introducing an Industrial Assurance deregulation order, which will aim to modernise collection and accountability arrangements, whilst maintaining satisfactory levels of consumer protection.

OBJECTIVE 7: TO ARRANGE FOR THE COST-EFFECTIVE MANAGEMENT OF THE GOVERNMENT'S DEBT AND FOREIGN CURRENCY RESERVES AND THE SUPPLY OF NOTES AND COINS

The Treasury's responsibility for the management of the Government's debt and foreign currency reserves is delivered through agents: the Bank of England, National Savings and the Royal Mint. Payments to the Bank of England for the supply of banknotes, debt and reserves management do not form part of the Treasury's running costs but rather its programme expenditure and these are covered in Sections 1.3 and 1.5 of this report. Similarly, payments to the Royal Mint for UK circulating coinage are programme payments covered in Section 1.4. National Savings is a separate government department with its own expenditure provision which is covered in Chapter 2 of this volume.

In 1997-98 the Treasury's objective has been to finance the Central Government Borrowing Requirement (CGBR) through sales of gilts and National Savings products in such a way that minimises the costs to the Exchequer subject to risk while ensuring consistency with monetary policy. The Debt Management Report published in March 1997 set remits for the Bank of England and National Savings to deliver this objective. It was amended in the July Budget.

The 1997-98 borrowing programme remains on target to finance the CGBR with the chosen debt instruments. During the year there have been further developments to make gilts more attractive to investors and reduce costs, notably the start up of the strips market and further simplification of the gilts tax system.

As part of the new monetary framework, the Chancellor announced that responsibility for debt and cash management operations would pass from the Bank of England to the Treasury. A separate Debt Management Office of the Treasury will be established in April 1998: this is being announced as a candidate for Executive Agency status. However, the gilts registration function (which has always comprised the bulk of the payment to the Bank for debt management) will remain with the Bank of England. The new Debt Management Office will be set a published remit by Treasury Ministers in the normal way. The thrust and main objectives of debt management policies will be unchanged. A Framework Document will be published when the Agency is established.

The Bank of England will continue to manage the foreign currency reserves and associated foreign currency borrowing. Each year the Treasury sets the Bank of England a remit for managing the reserves to minimise the cost and risk of holding them. Full details of the reserves are now being announced on a quarterly basis (including the details of the forward book which have hitherto not been revealed). The annual financial statement of the Exchange Equalisation Account which holds the foreign currency reserves will be also be published.

OBJECTIVE 8: TO PROMOTE THE UK'S ECONOMIC INTERESTS AND IDEAS THROUGH INTERNATIONAL CO-OPERATION AND KEEPING ABREAST OF DEVELOPMENTS IN OTHER COUNTRIES

The achievement of the Treasury aim of greater prosperity and employment, and the various Treasury objectives towards this aim, has a significant international dimension. This is evident from the scale of both UK investment abroad and overseas trade:

- As a percentage of GDP, the UK's stock of overseas direct investment is larger than that of any other major economy. Gross earnings on UK overseas direct and portfolio investments are equivalent to more than 6 per cent of gross national product (GNP).
- 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. Receipts from "invisible" trade (interest, profits, dividends, tourism and other services) now account for around a half of all the UK's overseas earnings.

The UK's prosperity thus depends more than other major countries on a prosperous and secure world economy. Engaging in international commerce brings not only these direct benefits but also, by exposing UK firms to best overseas practice, ensures that UK firms are themselves efficient and provide UK consumers with high quality goods and services at low prices.

1.2.37 Report on 1997-98

In working to meet this and other Treasury objectives, the aims of the international finance directorate in 1997-98 were to:

- take an active and influential role in shaping future international policies wherever the UK has a major financial and economic interest;
- keep abreast of international economic developments by analysis of published data, close contact with other departments, embassies and overseas finance and economics ministries and overseas visits;
- respond quickly and effectively to developments in order to further and protect UK interests;
- promote the benefits of UK economic policies abroad;
- represent the Government in international fora and in particular to prepare the agenda for the UK presidencies of the EU and G7/8 in 1998.

Key objectives relating to Europe for 1997-98 were to:

- keep Parliament fully informed of Treasury-related EU and other international developments
- ensure that UK economic and financial interests were fully pursued at EU Council meetings (in particular ECOFIN and Budget councils), in meetings of the G8, G7 and G10 and through the IMF and other international financial institutions;
- ensure that the financial perspective for EU expenditure agreed at Edinburgh was respected, and that annual EC budgets were in line with UK objectives; and prepare the ground for the next future financing negotiation;
- carry forward UK initiatives on financial management and fraud, achieving identifiable improvements in Community legislation and procedures;
- ensure that contributions to the EC were correctly and lawfully paid, and that correct provision was made for the UK abatement in the EC Budget;
- ensure the efficient operation of the EUROPES system and maintain the principle across the Community Budget that increases in Community expenditure should be offset by parallel reductions in national expenditure;
- continue to participate on economic developments and EMU, responding to questions to promote informed debate and ensuring that the views of the City and UK business sector were taken into account in the EMU preparations;
- continue to lobby for appropriate reform of EU policies before EU enlargement so that the substantial potential economic benefits of enlargement could be realised, budgetary costs contained, and the EU's GATT/WTO obligations met;
- ensure that economic and financial interests were given due weight in the final stages of the Inter-Governmental Conference (IGC);
- continue to argue for reforms at the European Investment Bank, including a move to risk-related pricing of loans.

In 1997-98, in relation to Europe, the Treasury:

- introduced the new Government rapidly to EU procedures and ECOFIN colleagues;
- successfully launched the Finance Ministry aspects of the UK Presidency, having first prepared the Office and Ministers thoroughly for their additional EU Presidency roles;
- defended UK economic and financial interests in the IGC, preserving national competence on tax;
- worked closely as a Troika with Luxembourg and Austria on managing the timetable for EMU decisions
- argued against calls for a new EIB capital increase, negotiated a new external lending mandate which ensured an appropriate level of risk sharing between the Bank and Member States, and reached agreement on all elements of the Amsterdam Special Action programme and a pre-Accession facility for Central and East European countries;
- lobbied hard to ensure economic and financial parameters were fully reflected in the Commission Agenda 2000 report and saw our own approach to the assessment of economic readiness of the candidates reflected in the Commission Opinions;
- with other Whitehall departments, lobbied to ensure additional money for pre-Accession aid is well targeted on the weaknesses in the applicant countries' economies and where other sources of the appropriate funds do not exist;
- developed assessment of sustainable convergence, and monitored progress of other countries towards EMU;
- held down pressures for increases in EC spending and encouraged redirection of some EC spending into higher priority areas;
- ensured respect for Financial Perspective ceilings;
- contributed to the introduction of more effective financial management arrangements, notably in the Treaty of Amsterdam and in the Structural Funds;
- ensured that EU macro financial assistance to countries outside the EU remained within the guidelines agreed between EU finance minsters.

Key objectives relating to export credit and debt in 1997-98 were to:

- secure speedy and effective implementation of the initiative for highly indebted poor countries, with some eligible countries receiving debt relief in 1997;
- continue to lead the UK Paris Club delegation, securing further reschedulings in the interests of debtors and creditors (especially the UK); achieve a satisfactory outcome to discussions on Russian participation;
- continue to develop export finance policy in ways that help enhance UK exports producing a positive return whilst safeguarding the UK taxpayer, facilitating private sector provision of export finance services and supporting UK competitiveness;
- continue to develop a relationship with Export Credits Guarantee Department (ECGD) in a way that allows the Treasury to act in a way akin to an institutional shareholder, with ECGD having clear responsibility for day to day running of the business and meeting financial and other objectives.

In 1997-98, the Treasury:

- helped secure decisions to deliver debt sustainability for Uganda, Benin, Burkina Faso, Bolivia, Cote d'Ivoire, Guyana and Mozambique under the terms of the initiative for highly indebted poor countries;
- led the UK delegation to the Paris Club, and secured agreements to appropriate debt rescheduling, and where justified reduction, for Jordan, Cameroon, Niger and Cote d'Ivoire;
- helped the Chancellor present new ideas - his Mauritius Mandate - for effective debt relief, support for productive expenditure, and a tax relieved millenium fund for education in poor countries;
- promoted Russia's membership as a creditor in the Paris Club on terms that support third world debt relief and recognised Russia's equal status with other creditors;
- with ECGD and the Bank of England, produced a consultation document issued by the President of the Board of Trade on 11 Februrary 1998 on the advantages and disadvantages of a new commercially led approach to export finance. Responses have been requested by 11 April.

- with ECGD further improved risk management systems for their insurance business

Key objectives in 1997-98, relating to the world economy, were to:

- maintain expertise and monitor developments in the world economy (including the world economy section of the Treasury's economic forecasts), in international markets and in key economies (G7, EU, Russia and Eastern Europe, as well as important emerging markets including Brazil and China);
- work with other interested departments to ensure that the approach by WTO to new trade issues does not result in covert protectionism and to promote integration of poor countries into the international economy; and monitor bilateral trade initiatives to ensure compatibility with existing WTO obligations;
- continue to work towards a multilateral agreement on public procurement under the WTO;
- seek improvements in the efficiency and effectiveness of EU procurement information systems;
- continue to promote an open world economy, in particular by promoting capital liberalisation at the IMF;
- continue to enhance the IMF's effectiveness in achieving stable growth in the world economy, including through improved economic surveillance and a satisfactory outcome to negotiations on future financing;
- secure practical proposals to reduce the risks of banking/financial sector crises in emerging market economies, through work commissioned at Lyon;
- continue to support the process of economic transition in the former Soviet Union and Eastern Europe (including the former Yugoslavia) primarily through programmes of conditional lending by the IMF, World Bank and EBRD;
- work with ODA to ensure that the World Bank and the multilateral development banks respond effectively to changes in the world economy.

In 1997-98, 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; in the latter part of the period analysis of the financial difficulties in some Asian economies, and the implications for the work economy, was an important part of the Directorate's work;

- played a key role in discussions of IMF member countries economies and Fund programmes with Russia, Thailand, Indonesia, and Korea being particularly to the fore during this period;
- contributed 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, including the work about EMU, particularly on developments in other member states;
- continued to work with other interested departments on international trade issues at the WTO and elsewhere, paying particular attention to, narrowly, financial implications and, more broadly, the contribution to economic prosperity and growth in the UK;
- contributed to work towards the Denver G8 summit;
- joined in regular meetings of G7 Finance Ministers;
- pressed forward with others proposals to make capital account liberalisation an objective of the IMF;
- chaired a Commonwealth working party on capital liberalisation, whose report was adopted by Commonwealth Finance Ministers in Mauritius in September;
- successfully pressed for work to start on an IMF code of openness in economic policy, and - consistent with that - continued our recently established practice of publishing the concluding remarks of the IMF's annual mission to the UK;
- participated with other IMF members in agreeing to an amendment of the IMF Articles of Agreement to allow for a one-time special allocation of Special Drawing Rights;
- concluded, with other major economies, an agreement which will provide a new line of credit to the IMF (the New Arrangements to Borrow) which supplements the existing line of credit and broadens the creditor base;
- played a major role in a working group of G10 and emerging market countries, which recommended a strategy for reducing the risk of financial crises in emerging markets

- contributed to the work of other Whitehall departments responsible for other international institutions, including the World Bank and the Regional Development Banks, and the OECD;
- joined with others in taking forward the programme of future work flowing from the Denver Summit of the G8 countries;
- the Chancellor participated in the first ASEM finance ministers' meeting in Bangkok; the department contributed to the preparations for the ASEM 2 summit in London in April 1998.
- from 1 January 1998, the UK assumed the presidency of the G7 and G8. The Chancellor chaired a meeting of G7 Finance Ministers in London and the special G8 Conference on Growth, Employability and Inclusion also in London in February. Work continued towards the preparation of the Birmingham Summit in May 1998.

Re-cast as a joint Treasury/DTI unit, the Procurement Policy team continued to influence developments on both the EC and WTO rules on public procurement with a view to improving the competitiveness of suppliers and the overall efficiency of the global economy through the opening up of the public procurement markets throughout the EU and beyond. Within the EU, work started on the review and future revision of the procurement directives. At the international level work started in separate WTO fora on

- the simplification and improvement of the 1994 Government Procurement Agreement (GPA);
- the development of a multilateral WTO agreement on transparency, aimed at providing information about opportunities to bid for public contracts and the conditions for competition; and
- the public procurement aspects of trade in services

1.2.38 *Future targets, plans and milestones for 1998-99*

The aims of the International Finance Directorate in 1998-99 are to:

- ensure successful UK presidencies of the EU and G7 and G8;
- take an active and influential role in shaping future international policies wherever the UK has a major financial and economic interest;
- keep abreast of international economic developments by analysis of published data, close contact with other departments, embassies and overseas finance and economics ministries and overseas visits;

- respond quickly and effectively to developments in order to further and protect UK interests;
- promote the benefits of UK economic policies abroad;
- represent the Government in international fora and in particular to take forward the agenda for the UK presidencies of the EU and G7/8 in 1998.

In particular, the Treasury will seek in 1998-99 to:

- improve the process by which the Government informs Parliament of EU business, seeking to modernise the Scrutiny system wherever possible;
- help the Government shift the focus of EU debate towards economic reform - both labour and product markets - through a wide variety of routes and good relationships with other Member States;
- efficiently and impartially run the EU Presidency, in particular the successful launch of EMU and creation of the European Central Bank (ECB) and its Executive Board;
- ensure that economic and financial criteria continue to be applied strictly in respect of Enlargement, and encourage the Council to move substantially in the direction of Policy Reform;
- progress work on reform of the Government's of the EIB to be ready for Enlargement of the EU. Press for introduction of differentiated loan pricing, both within and outside the EU.
- use the UK Presidency to strengthen budget discipline and improve financial management systems;
- conduct future financing negotiations in the EC so as to minimise cost to the UK taxpayer;
- secure full implementation of the Chancellor's proposals - the Mauritius Mandate - for third world debt relief, support for productive expenditure and any follow up measures approved by the Chancellor;
- deliver improvements in economic relations with African and other developing countries, including through the UK's ideas on trade, investment and transparency;
- continue to lead the Paris Club delegation, to secure further reschedulings in the interests of debtors and creditors, especially the UK;
- continue to develop export insurance policy in ways that enhance UK exports producing a positive return whilst

safeguarding the UK taxpayer, complementing the private sector and supporting UK competitiveness.

- continue work on the analysis and forecasting of the world economy and of individual countries, contributing fully to G7 surveillance of the world economy and financial markets and to the work of the IMF and other IFIs;
- continue work towards a flexible and efficient world economy with open markets for goods, services and investment, to increase prosperity and employment in the UK;
- join with others in debate and discussion about the causes and lessons of the financial difficulties affecting some Asian countries, and their implications for the strengthening international monetary system, providing a progress report for the Heads of State at the Birmingham G8 Summit;
- continue the work of the UK's G7 presidency towards the Birmingham Summit and the follow up to that Summit's conclusions;
- ensure that UK economic and financial interests are fully pursued at EU Council meetings, in meetings of the G7, G8 and G10 and through the IMF, other international financial institutions, and other international fora, including the OECD;
- continue to pursue open capital markets and free flows of capital around the globe;
- work to ensure an appropriate response by the international community to developments in capital markets, particularly in the light of instability in emerging economy markets, and participate in further work on how to prevent crises occurring in such markets;
- continue to promote greater openness and transparency in macroeconomic policy worldwide, in particular through further work at the IMF on developing a code of conduct for policy openness and by pressing for good governance issues to be given due weight in consideration of IMF policy programmes;
- continue to support the process of economic transition in the transition countries, primarily through the programmes of the IMF, World Bank and EBRD.

In 1998-99 the procurement team will continue to focus on the tasks described in the report on 1997-98, to achieve an effective Single Market and a WTO provision which is simpler than the GPA and will apply to all WTO Signatories.

OBJECTIVE 9: TO MAINTAIN A PROFESSIONAL AND WELL-MOTIVATED AND OUTWARD-LOOKING ORGANISATION, COMMITTED TO

- *OPEN AND ACCOUNTABLE CONDUCT OF POLICY; AND*
- *EFFICIENT, ECONOMIC AND EFFECTIVE MANAGEMENT OF ITS RUNNING COSTS*

To enable the Treasury to meet its eight other objectives, the Department must do the right jobs well; make the Treasury a good place to work; and establish and maintain good relations with other organisations. It must do all this in a cost effective and efficient way.

1.2.39 Open and accountable conduct

The Department remains committed to the concept of greater openness and applies the principles of the Code of Practice on Government Information. A series of policy announcements and publications, includes:

- the new monetary policy framework itself;
- the Chancellor's decision that the National Audit Office (NAO) would be asked to report (in advance of the July Budget) on the key assumptions and conventions that lie behind the forecasts of public finances;
- the first ever Pre-Budget report on 25 November
- the proposal for a Code of Fiscal Stability;
- the National Asset Register; and
- the new quarterly report on the detail of the UK's holdings of foreign currency and gold.

The Treasury has also continued to publish material, documents and guidance on a range of policy issues:

- Over 200,000 copies of a small handy-sized "pocket" Budget document, summarising the main Summer Budget measures, were distributed to key outlets, like benefits offices, universities and libraries and made freely available to the public on request. This exercise was repeated with a pocket sized version of the pre-Budget report.

- Over 60,000 copies of a practical Guide to Business on EMU have been distributed to businesses large and small, along with 21,000 copies of a revised version of Lord Currie's report on EMU.
- Around 6,000 copies of a document setting out an in depth assessment of the economic consequences of EMU to this country have been requested.

Supplementing the pre-Budget Report on 25 November, a number of associated documents have also been made widely available on Learning Lessons from the Past, Modernisation of the Tax and Benefit System and the Public Sector Balance Sheet, as well as consultation papers on Corporation Tax Payments and Individual Savings Accounts.

Effective presentation of policy to the media and the public is the key objective of the Treasury's Communications team. Over 200 Press Notices are issued annually, with many press conferences, and briefings also taking place. A large amount of information is made available under the Code of Practice of Open Government, including briefing on the Budget and up to date spending figures.

The Treasury's Internet service is proving particularly popular with over 30,000 accesses a week, a considerable increase on last year's 7,000-8,000. A wide range of material is available, including press notices and statements as well as publications. The Summer Budget documents were available within seven minutes of the Chancellor finishing his Commons statement and there were 541,000 "hits" in the week following the Budget. The pre-Budget Report and accompanying documents were available within 20 minutes of the Chancellor sitting down with around 210,000 hits immediately afterwards.

The Public Enquiry Unit brings together responsibility for answering questions from members of the public and issuing most Treasury publications. The Unit receives over 2,000 calls a month. Almost three quarters are dealt with immediately: most are seeking copies of publications.

The Publishing Unit continues to develop the quality and range of its output, having put in a lot of work redesigning the Budget documents and designing the pre-Budget report and related material. The size and detail of the National Asset Register proved a particular challenge!

1.2.40 *Efficient, economic and effective management*

The quality of the Department's advice to Ministers and its work with other organisations depends entirely on Treasury staff: their recruitment, management and development is much the most important, internal priority. Staff salaries and other staff-related expenditure dominate the Department's running costs.

1.2.41 *Report on 1997-98*

Staff Management

For the most part the Department develops its own staff to fill vacant posts. It also draws in people on loan or secondment from other Government departments and other employers, both to encourage cross fertilisation of ideas and approaches, and to provide career development opportunities for those with particular skills, experience and specialisms.

In 1997 the Department recruited 25 staff directly through open competition, and a further 7 staff transferred permanently from other Government departments.

Systems are in place to ensure that the recruitment procedures reflect the Civil Service Recruitment Code (based on the principles of full open competition with selection on merit), and they are subject to an internal check. The Code provides for some exceptions (principally short term appointments and secondments). Of the permitted exceptions 33 casual staff (including 16 sandwich students) were recruited on contracts of less than one year, and 13 from secondments.

During 1997 86 staff, a turnover rate of 10% left the Department on retirement, permanent transfer to another Government department or resignation.

Within the Department, most posts are advertised openly and filled by individual transfers of staff between teams, allowing them to build a broad range of experience. The internal posting system was reviewed in 1997 and it was decided to improve the system by taking decisions about moves at particular ranges in "clusters". Two trials of the "clustered" approach were run early in 1997, and the approach will be fully evaluated during 1998.

Promotions from Pay range B (formerly Administration Officer) to C (formerly Executive Officer) and from D (formerly Higher Executive Officer /Senior Executive Officer) to E (formerly Grade 7) were managed centrally, and conducted through an assessment centre. The rigour associated with assessment centres (see box below) reflects the step change in responsibilities between these pay ranges.

The promotion to post route was adopted for promotions to Range B and to Range D, where there is a more gradual progression in the level of difficulty and responsibility.

New arrangements were implemented in 1997 to assess whether certain staff in Ranges C and D had the potential for rapid progress to Range E and if so, to promote them. This process was run along assessment centre lines and was open to staff on the basis of merit, whatever their mode of entry to the Department.

ASSESSMENT CENTRES

The advantages of the assessment centre approach, compared with assessments based solely on interviews and appraisal reports, include:
➢ *the assessment is over a number of dimensions - the criteria, covering a range of skills, reflect what is actually needed at the higher level*
➢ *the variety of techniques - enabling a more comprehensive coverage of the skills and attributes needed at the higher range*
➢ *several candidates are assessed together - allowing interaction between the participants, and assessment of that interaction - it is also economical*
➢ *several assessors are involved - this increases objectivity and the validity of the assessment process*

The Department attaches great importance to achieving equal opportunities for all its staff. It has policies in place to guard against discrimination on grounds of gender, marital status, race, colour, nationality, ethnic origin, disability, religion, sexual orientation, age (except in relation to the Treasury's retirement policy) or background. They aim to ensure that there are no unfair or unlawful discriminatory barriers to employment or advancement in the Treasury. These policies, which are set out in the Staff Handbook, have been substantially revised and expanded during 1997-98. They have also been updated to reflect the introduction of the Disability Discrimination Act 1995. A survey of staff has been undertaken inviting them to indicate if they have a disability as defined by the Act.

As a result of the recommendations made by the Treasury Code of Behaviour Working Group, a "Supporters scheme" was established department-wide. The scheme complements existing channels for staff experiencing problems at work. In addition, there are a pool of staff who have been trained to sit as members of Special Review Boards to investigate formal complaints made using the Treasury's internal complaints procedure.

The Department collects and analyses data on recruitment, promotion, staff appraisal etc, to monitor the effectiveness of its policies and continues to work to ensure that equal opportunities are taken fully into account in all Treasury personnel policies.

- Women comprise 42% of Treasury staff in 1997, compared with 43% last year. Of the 25 people recruited in 1997, 40% were women. As in 1996, 18% of senior civil service staff in the Treasury were women. The Treasury is a member of Opportunity 2000, and continues to monitor the progress of women throughout the organisation.

- The proportion of ethnic minority staff employed by the Treasury has increased from 11% in 1996 to 12% in 1997. Of the 25 people recruited in 1997, none was from the ethnic minorities. 1.4 % of staff in the Senior Civil Service are from ethnic minorities.
- The Treasury has a Departmental action plan on Disability designed to eliminate any barriers that might exist to the employment and progression of disabled people within the department.

The 1996-97 report (Cm 3617) described how the Treasury had adapted the way in which it assesses individual performance to incorporate the Department's performance standards and to give clearer guidance on marking. The main aims of the new appraisal system are:

- to provide a clearer definition of what is required of each individual and how this should be achieved;
- to provide guidance on how to improve performance;
- to enable a fair assessment of performance and provide a clear link to performance pay.

The first full reporting year under the new appraisal system ended in January 1997. As planned, the new approach was reviewed in the light of experience in its first year of operation.

All staff were asked to feed in ideas and a series of papers were put to the Management Board in November. As a result, the appraisal format has been refined for 1998.

Over one fifth of the Department are involved in providing services to the rest of the Treasury. It is important to the efficiency and effectiveness of the Department that their responsibilities and standards of service are clear. Service Level Agreements (SLAs) have been developed in a number of areas: Treasury and Cabinet Office Library, Information Technology Operations and Help Desk team, the SLA agreed between the Accommodation & Security team and DTZ (the Treasury's managing agents) and the Procurement Unit for the Treasury. Customer satisfaction surveys completed by the users of these services have tended to give very positive feedback on performance and levels of service.

1.2.42 Motivation and reward

The most powerful source of motivation remains the intrinsic interest and challenge of the Department's responsibilities. However demonstrating to staff that they are valued, for example by providing them with development opportunities, also contributes strongly to staff motivation.

During 1996-97, the Treasury implemented changes to the way it assesses and rewards individual performance, emphasising the need to recognise individuals on the basis of their performance and contribution. The main elements were set out in last year's report (Cm 3617).

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 framework which follow closely the approach adopted for other staff:

- broad pay ranges which allow scope to reward people doing basically similar jobs according to their contribution;
- pay progression arrangements which link total pay strongly to performance.

The table below shows the pay of Treasury staff as at 1 April 1997.

Pay*	Number of staff*	Pay**	Number of staff
Over £100,000	4	£50,001-£55,000	23***
£95,001-£100,000	0	£45,001-£50,000	21****
£90,001-£95,000	1	£40,001-£45,000	27*****
£85,001-£90,000	-	£35,001-£40,000	78
£80,001-£85,000	1	£30,001-£35,000	62
£75,001-£80,000	4	£25,001-£30,000	99
£70,001-£75,000	4	£20,001-£25,000	160
£65,001-£70,000	5	£15,001-£20,000	270
£60,001-£65,000	3	£10,001-£15,000	111
£55,001-£60,000	23	Under £10,000	2

* Excluding casual employees. All staff earning more than £55,000 are members of the Senior Civil Service

** total pay including fixed allowances. Pay of Senior Civil Service staff includes second stage of their 1997 pay increases, payable from 1 December 1997

*** including 22 members of the Senior Civil Service

**** including 14 members of the Senior Civil Service

***** including 4 members of the Senior Civil Service

1.2.43 Staff development

The Department runs a central training programme - the Treasury Development Programme (TDP) - to cover the core skills the Department needs in the medium term.

The programme offers all staff:

- a systematic assessment of the skills needed for different posts and ranges in the Treasury, to help career planning;
- modular training at a number of levels in the core skills;
- internal accreditation for each module.

The programme started in January 1997. By September 1999, it is planned to link the acquisition of TDP skills levels with promotion opportunities.

So far, modules have been run in micro and macro economics, accountancy and finance, numeracy and statistics and public policy. Management modules are being introduced early in 1998-99. These also offer staff the option of studying for an externally accredited management qualification.

In all the Department offered over 35 TDP modules in 1997-98, which were attended by over three quarters of all staff.

Staff's training needs are met in other ways too. External training courses are typically used for the acquisition of non core skills and a number of staff are studying for professional qualifications, for example in purchasing and personnel. As indicated above, the Department also offers other development opportunities.

A one day training course in information management was offered as part of the E-day project (see below), covering advice and best practice guidance on the selection and storage of electronic documents, and also the revised departmental paper filing system. A further day's course was offered on the new release of OASIS software for those who wanted to learn more about the new facilities and features of the E-day software package. Both courses were popular and well attended.

The Department made a formal commitment in April 1994 to achieving the Investors in People standard and agreed its original action plan with the Central London Training and Enterprise Council (FOCUS). The action plan was revised during 1996 and 1997. A number of top managers have visited leading organisations which have achieved the Investors in People award to see the benefits for themselves. The Department aims to seek formal accreditation during the next two years.

In developing its staff, the Treasury is strongly committed to exchanges with European and other international finance institutions, and with the private and public sector.

The Treasury uses *interchange* to:

- increase expertise and experience within the Department;
- improve understanding and cooperation between the Treasury and other organisations; and
- help staff develop wider skills for their future careers.

The number of staff on loan and secondment, both inward and outward increased over the year to November 1997: there were 69 staff loaned and seconded into the Department in November 1997 compared with 48 a year earlier; and 138 loaned and seconded out compared with 108 in November 1996.

Of the staff out on secondment or loan, a large proportion are in other Government departments. Others are with the National Health Service, overseas (mainly in Embassies or the IMF / World Bank) and in the private sector. Incoming staff are drawn from other Government departments, the private sector, the European Commission and foreign Governments.

The Department also uses *360 degree feedback*, a technique which enables participants to build up a picture of their strengths and development needs as perceived by managers, peers and subordinates.

Within the Treasury it gives :

- staff an insight into their performance against key management criteria, and an opportunity for personal development planning;
- the Department an aggregate picture of staff strengths and development needs, in order to plan training and development more effectively.

The Department ran a successful 360 degree feedback exercise in 1996 in which 90 per cent of Treasury staff in the Senior Civil Service participated. It was decided last autumn to extend the opportunity to take part, to include anyone in the Department who has three or more staff reporting to them.

1.2.44 External relations

The Spending Directorate sought feedback in January 1997 from other Government departments on the initiative which it took in 1996 to forge more constructive relations with them. The response was very positive and showed that departments generally thought that their relationships with the Treasury teams had improved significantly over the previous year. The Department is committed to building on this improved position. The Directorate sought comparable feedback in January 1998. Half of the departments surveyed thought that their relationships had been maintained at the same level as in the previous year and the other half declared a partial or positive improvement. None thought that the position had deteriorated.

Teams are continuing to practise measures aimed at promoting mutual understanding and to clarify their roles in relation to the departments with which they deal. For example, the Directorate has drawn up a concordat setting out the respective roles and responsibilities of the Treasury and other Government departments in providing accurate and timely information to Parliament through the Estimates process. This is currently being implemented.

The Department also continues to attach considerable importance to fostering contacts with industry over and above those made in the normal course of business. A large number of visits to industry have again been made by Treasury officials, across all managerial levels, under the Contacts with Industry Scheme (CWI). These have extended across a number of sectors, particularly manufacturing, communications, financial services and construction; and included both small and large companies.

The feedback from companies has again been positive, with many of the larger ones requesting a second visit. The Industry Team is improving the CWI page on the Treasury website to facilitate enquiries from businesses through the Internet. There are also plans to link the Treasury's secondment scheme with CWI.

The Department also encourages officials to visit other organisations such as local authorities, hospitals and universities where such visits can be useful in developing a wider understanding, on both sides, of Government economic policies and their impact. The Interchange programme (see paragraph 1.2.42 above) also fosters this objective.

Meanwhile, the Treasury's seminar and debate programme aims to illuminate important public policy issues with a significant economic content, and to make the Department more open to learning about economic policy development in other institutions. Some 17 seminars took place during 1997 on subjects such as the revolution in communications, long term unemployment, reform of the NHS, monetary union and the future of London Government.

The Treasury also takes account of the views of members of the public. The Ministerial Correspondence Unit (MCU) continues with its work in handling all the mail received by Treasury Ministers and aims to respond promptly. For 1997 the Treasury's targets for replying to ministerial letters were:

15 working days for those referring to Treasury policy,

18 for those requiring an answer from the Chancellor's other departments and

23 days for those requiring a report from a local office.

Over 1997, 13,000 replies were sent. Due to other pressures of work, less than half of the replies met the targets. The Department is looking to increase this response rate to [ ]% in the current year.

1.2.44 *Running costs*

Table 1A shows the Treasury's running costs for 1992-93 to 1998-99. The total running costs provision for 1997-98 was £62.0 million, of which just over half was accounted for by pay costs of Ministers and staff. This includes additional provision of £1.1 million taken up in a Winter Supplementary Estimate from the Department's End Year Flexibility. This represents the cost of funding new work in 1997-98 such as setting up the Debt Management Office, the G7/8 conference on employability and Bill teams on the Bank of England and financial regulatory reform less offsetting savings. It also includes the transfer of the Insurance Directorate from DTI. Since 1992-93 the Department's running costs have fallen by 18 per cent in real terms.

The delegation of running costs budgets to Directorates to manage has been extended further into such areas as security vetting, the costs of participation in the Treasury Development Programme and maintenance charges for all desktop hardware and specialised applications.

Under previous plans, staff numbers were set to fall from the 909 recorded in December 1996. The average for December 1997 was 898 (full time equivalents), excluding the Insurance Directorate. The additional responsibilities the Department has taken on during the year have been offset by reductions in monetary policy, privatisation and other areas.

The running costs regime imposes downward pressure on budgets. Given the nature of the Treasury's business, the main way in which it has to achieve savings is a reduction in staff numbers and associated reductions in non-staff costs.

The Treasury has taken part in the preparation of illustrative resource accounts and is currently involved in the pilot exercise on in-year control.

A project is also under way to replace the mainframe Financial Information System with the aim of securing a reduction in running and maintenance costs.

The Treasury complies with BS 7890, the British Standard for Achieving Good Payment Performance in Commercial Transactions. Our target for payment of all bills is within 30 days of receipt of a legitimate invoice, or a lesser period specified in the contract. Performance on payment has been maintained and is expected to be 95% at the end of the 1997-98 financial year.

At the end of the financial year, the Procurement Unit estimate that they will have achieved savings of around £2 million on contracts covering spend over the next three to five years with a value of around £25 million. The 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 to achieve best value for money without sacrificing quality.

1.2.46 Asset management

The Department became responsible for the management of the two buildings it occupies on 1 April 1996. Since then, some progress has been made on increasing the use of private sector facilities management in its headquarters building (Government Offices Great George Street - GOGGS)

During 1996-97, negotiations with potential private sector partners had taken place with a view to redeveloping the GOGGS building. However, on 31 July 1997, the Paymaster General announced to the House that the Chancellor was unwilling to embark on a major construction project, which would have involved substantial expenditure and significant financial risks for other Government occupants of the building in terms of the disposal of property elsewhere, at a time when all departments were undertaking Comprehensive Spending Reviews and were subject to extremely tight expenditure controls. Negotiations on the PFI project for GOGGS were therefore terminated.

A survey and risk assessment has since been carried out. This, together with the results of a review of Whitehall accommodation and wider consultations with staff, will inform decisions to be taken on future work to the building, in the light of the Treasury's business needs.

The Department has continued to introduce energy saving measures and develop environmentally "green" schemes as appropriate and within the constraints imposed particularly by the existing accommodation at GOGGS. The Department is working towards substantially reducing its use of paper with the introduction of a more efficient office system and has increased its recycling programme. It has set a target of reducing waste by 10% from March 1997 to March 1999.

An Information Systems Strategy, drawing on contributions from people throughout the Department, was endorsed by TMB in the autumn of 1996. It concluded that the Department should move decisively towards becoming an electronic organisation. More specifically, the Department should improve the management of its information by storing it electronically in such a way that others could find and use it. Following more work in the spring of 1997, TMB endorsed the E-day (Electronic-day) project which was designed to implement a radical improvement in the Department's management of its information.

There were a number of threads to the E-day project - upgrading all the personal computers in the Department and enhancing software packages to enable the smooth storage and retrieval of electronic documents. It was also necessary to upgrade the central hardware on which the SAROS system runs to improve the reliability and capacity of the document management system in readiness for E-day on 5 January 1998. From that day, all Treasury teams used the electronic filing system to store and retrieve their documents.

The project was supported by guidance made available electronically to staff and a well attended training programme was run throughout the autumn.

Information technology has already had a major impact on the way in which the Department works. The office automation system, OASIS, which was installed in 1996 has improved electronic communications and the transmission of material both within the Treasury and with those outside. Electronic gateways also provide the facility to send and receive e-mails over the Internet.

Electronic requisitioning of certain goods and services was introduced last year. In 1997-98 this has been expanded to include ordering of travel services. The electronic system obviates the need for some of the checks currently carried out, although others relating to application of the rules will be retained.

As part of Treasury's move towards strategic procurement they have awarded two contracts for text/image handling solutions to Xerox (UK) Ltd and Danka Office Imaging Ltd. The equipment will enhance the OASIS electronic office system. The contracts allow for the provision of digital networked scanners, printers and copiers. Digital networked printer/copiers improve efficiency by making staff more productive and producing better quality images and they are more reliable due to a considerable reduction in moving parts. The contracts in effect give Treasury access to all the printers and copiers on the market at special prices.

The Ministerial Correspondence Unit (MCU) is continuing to switch all its processes over to electronic handling. After the successful linking of Inland Revenue to MCU's computer system, and the completion of pilots covering selected Treasury teams the software will be rolled out to the whole of the Department.

The IT team gained ISO9001/TickIT quality certification in the autumn of 1997. The team had been working towards certification for some time, and passed the audit with flying colours.

1.2.47 *Targets, plans and milestones for 1998-99*

Staff management and development

The Treasury Development Programme will continue throughout 1998-99. The programme will be reviewed towards the end of 1998, to check that it is continuing to support the Department's medium term business needs. Key milestones for future years will be identified as part of the review process. Directorates will also continue to offer their staff more Directorate-specific training. E-Day training will continue into the first quarter of 1998 by which time, the whole Department will have had the opportunity to undertake it.

The Department will continue to give high priority to inward and outward secondments with European institutions and the private sector. While continuing with long term secondments and loans, the Department is also considering ways of expanding the range of interchange by increasing the scope and variety of short term opportunities. These include twinning (pairing of Treasury staff with people of a similar level in other organisations to enable them to learn from each other), working group seminars, and attachments (with Europe and the private sector), work shadowing (with the private sector) and mentoring.

On Investors in People, a working group will be set up to take this work forward. The Department will undertake a trial assessment during 1998 and then set a target date for final accreditation.

The new approach to defining and assessing individual performance will be reviewed in 1998-99 in the light of experience in the first two years of operation. The new pay arrangements will continue to be developed to meet the objectives set out above.

The Department will be giving external relations a high priority in objective setting, making sure that teams continue to focus on strengthening relations with departments, that the programme of seminars with distinguished guest speakers is maintained, that the interchange programme is vigorously pursued, that all senior and middle ranking staff go on industrial and similar visits and that the outward focus of the Department is maintained and strengthened.

1.2.48 Running costs

With the addition of the Debt Management Office the baseline will be £61.2 million. Internal allocation of the fixed baseline is being revised as part of the Treasury's Departmental Review (part of the Government's Comprehensive Spending Review) which is examining from a zero base the resource needs of the Department up to 2001-02. The aim is to provide a clear link between the Treasury's objectives, and other more specific Ministerial initiatives; the targets, tasks and milestones to which they give rise; and the resources needed to achieve them.

Following the cancellation of negotiations on the PFI project for the Department's headquarters building, the level of future work needed on the building is now under consideration.

The contract for the staff restaurant and security guarding are both due for renewal in 1998. There are likely to be efficiency gains resulting from bringing together the separate contracts for GOGGS and Allington Towers security guarding.

1.2.49 Asset management

Work identified in the risk assessment, referred to above, will be required to maintain the building in sound condition together with the efficient operation of the electrical services. In particular, electrical services and the effects water seepage have been identified as requiring attention. Every effort will continue to be made to introduce energy saving measures and develop environmentally friendly solutions within the constraints imposed by the accommodation at GOGGS.

The Treasury is producing a Business Continuity Plan (BCP). Its prime purpose is to map out an efficient and cost-effective means of enabling the Treasury to plan against, and recover from, the effects of a disaster affecting the availability of GOGGS and Allington Towers. The object is to have the BCP in place by the summer of 1998.

After the major task of achieving the E-day vision of an "electronic organisation" at the beginning of 1998, there will inevitably be a period of bedding in, when teams will be helped to develop their information management expertise. As the use of the document management system increases a programme of upgrading the central hardware to maintain the performance needed is planned. OASIS will continue to be enhanced. In particular a new version of the GroupWise mail system will be installed, together with better versions of the client and server document management software.

TABLE 1A: RUNNING COSTS (£ MILLION)

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Estimated Outturn	1998-99 Plans
Running Costs Gross	96	97	67	63	58	62	61
Related Receipts	-42	-40	-11	-11	-10	-10	-11
Net Cost	54	56	56	52	48	52	51
Paybill included in gross running costs	57	58	42	38	35	38	

TABLE 1B: STAFFING

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Estimated Outturn	1998-99 Plans
Permanent staff	1,490	1,447	1,333	1,060	903	949	949
Overtime	50	50	47	28	22	22	21
Casuals	20	11	18	28	29	22	20
Total Staffing	1,560	1,508	1,398	1,116	954	993	990

TABLE 1C: BREAKDOWN OF FORECAST OUTTURN FOR 1997-98 BY INDIVIDUAL FUNCTION (£ THOUSANDS)

Direct expenditure			Grant and transfers				
Running Costs	**Other current**	**Capital**	**Current**	**Capital**	**Gross total**	**Appropri-ations in aid**	**Net Total**
62,047	10,298	2,533	1,944	-	76,822	11,735	65,087

TABLE 1D: APPROPRIATIONS IN AID 1998-99 (£ 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 organisation, including the salary of the UK Executive Director of the International Monetary Fund/International Bank for Reconstruction and Development who is a Treasury employees 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.	4,056
Section A	Receipts from recovery actions in connection with Barlow Clowes	1
Section A	Receipts from fees charged to foreign investment exchanges/clearing houses	58
Section A	Receipts for the Insurance Directorate in respect of insurance sponsorship and supervision responsibilities	8,200
Section B	Receipts due to Debt Management Office for advertising costs, stock exchange listings and the facilitation of data provision	775
Section E	Recoveries in respect of honours and dignities	20
Total		13,110

TABLE 1E: CONSOLIDATED FUND EXTRA RECEIPTS (CFER'S) 1998-99 (£ THOUSANDS)

Interest payments	59
Dividends	91
Miscellaneous	2
Total	152

1.3 OTHER BODIES

The Treasury programme includes payments to:

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

2. National Savings

2.1 Aims & Objectives

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

At the beginning of 1997 the Agency completed a strategic review of its activities. It concluded that National Savings is of significant value to the Government in assisting to minimise the cost and risk of debt management. The review has resulted in a far reaching programme of change designed to improve the capability and flexibility of National Savings so as to maximise its future contribution to taxpayer value.

The Strategy Review concluded that National Savings was in need of modernisation and recommended remodelling the organisation, exploring public private partnerships in operational support services and adopting a more commercial approach to sales. The Agency is now engaged in a major change programme to implement this. Key projects in the overall programme of change are:

Organisation: re-organise the Agency along internal purchaser supplier lines, segregating core responsibilities from operational service delivery to provide a better focus on their specific activities

Funding: developing the remit with the Treasury to maximise taxpayer value added over time

Marketing: repositioning the real and perceived customers offer

Operations: building the required operational platform for the future to support the core Agency and reduce costs and improve customer service, using technology and re-engineered business processes.

The Agency's aims are:

- Primarily, to manage the retail component of the national debt portfolio so as to minimise the combined cost and risk of the total stock of debt and to meet funding needs cost effectively.
- In addition, to promote Government savings policies, making explicit to Ministers any costs of so doing that are not related to the above.
- And to compete in the retail savings sector in a commercial manner without distorting the market.

2.2 Achievements to date and plans

In delivering its aims and the programme of change National Savings has agreed a set of assumptions and challenging performance targets for the main elements of its business, which are:

- Funding
- Customer Service and People Management
- Value for Money and Financial

National Savings met, or exceeded, all its targets for 1996 - 97.

2.3 Funding

In 1996-97 National Savings' contribution through the retail market to PSBR funding was £4.8 billion, against a revised assumption of £4.5 billion. The Agency's assumed contribution to government funding for 1997-98 was set at £3 billion, and in the Chancellor's Pre-Budget Report, in November 1997, this was revised to £2 billion. This is in keeping with the revision in the Central Government Borrowing Requirement from £19.5 billion to £12.4 billion and reflects an interest rate climate in which savers have been reluctant to invest in 5 year fixed term products (which form around half of National Savings' funds).

National Savings net contribution is affected by two much larger flows: sales and maturities/repayments. Sales average over £1 billion a month.

During 1997-98, the Agency and the Treasury have worked together to develop agreed measures for tracking value creation. These will form a basis for taking decisions about interest rates and therefore assist the Agency in its primary objective of providing cost-effective funding.

National Savings is carrying out a major review of its marketing strategy with the aim of undertaking a programme to reposition the customer offer - customer segments, products, distribution channels and image. The review will enable National Savings to assess the nature and number of products that should be offered, the right combination of distribution arrangements and the customer segments that should be targeted for each.

2.4 Customer Service and People Management

The future of National Savings' business depends on the Agency's ability to know its customers, understand their needs and anticipate their requirements as their financial circumstances change.

The Agency uses an ongoing programme of customer surveys and bench marking activities to assess customer satisfaction. Regular monitoring of customer feedback also takes place and, as a direct result of feedback, changes have been made to product terms, sales literature and administrative procedures.

2.5 Customer Service Targets

The Agency's targets include measurement of the time taken to handle transactions and respond to correspondence. The accuracy and timeliness of customer transactions against the Agency targets is monitored monthly.

Systems for measuring the accuracy of the key customer transactions of sales and repayments were introduced for all NS products from April 1997. Statistically valid sampling methods which evaluate the quality of these prime customer transactions against established criteria are used. From the start of the financial year to 1 December 1997 National Savings performance against its accuracy target of 97% has been 99.37% for sales and 99.43% for repayments.

The time taken to deal with sales, payments and correspondence (stewardship) for all NS products is also measured. Where possible, computer systems record the information. Otherwise the same random sampling method used to check the accuracy of transactions is employed. Once again results from the start of the financial year 1 December 1997 are good, against the timeliness target National Savings' has achieved 99.43% for sales, 99.61% for repayments and 97.6% for correspondence.

2.6 Citizen's Charter

On 1 December 1997 the Agency received the Charter Mark award in recognition of excellent quality service provided to the public. With a customer base of over half the UK population and with investments of over £62 billion, the Agency is the largest organisation to win one of this year's awards. The Charter Mark confirms National Savings meets nine rigorous public service standards covering wide ranging areas of its operations, including consultation and choice, courtesy and helpfulness, information and openness. The Charter Mark's independent assessors were impressed by the high quality of staff and the service provided by the organisation. Referring to the substantial improvements in customer service which the Agency has made in recent years specific mention was made of the continuous search for better service and competitive products - many made as a result of customer feedback.

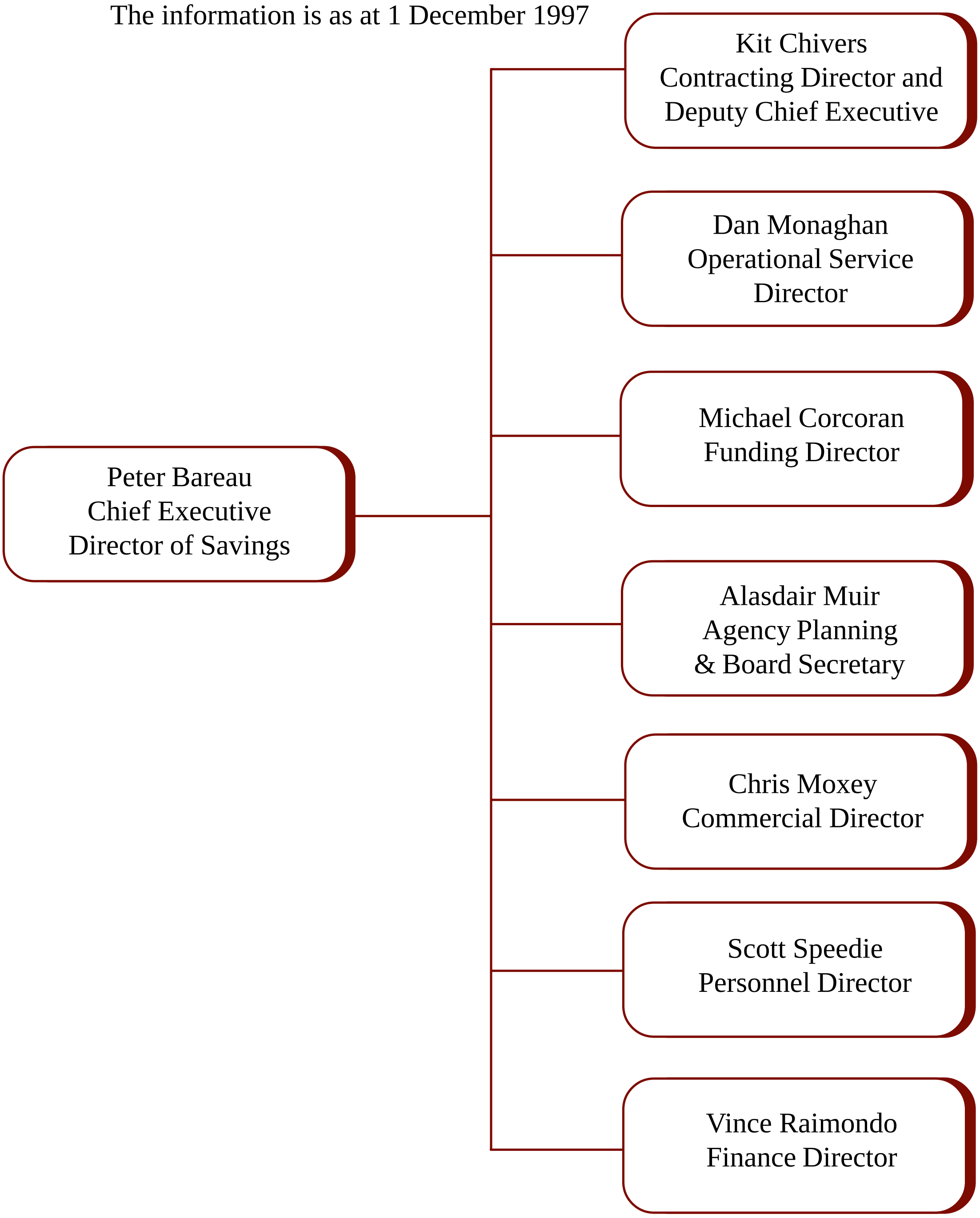
2.7 Compensation Payments for maladministration

During the period April 1997 to December 1997 the National Savings Adjudicator had arbitrated on 10 cases. 2 of the complaints were upheld. During 1996-97, and from 1 April 1997 to 1 January 1998 no payments were made for compensation for maladministration and no cases were referred to the Parliamentary Commissioner for Administration.

2.8 Senior Management

2.8.1 Senior Management Structure

The present senior management structure is shown in the chart below: The information is as at 1 December 1997



2.9 Equal Opportunities

The progress of women, ethnic minorities and disabled staff into middle and senior management positions continues to be constrained by the absence of promotion and recruitment on a significant scale. Staff numbers have continued to fall this year through natural wastage.

The Agency actively continues with its programme of Equal Opportunities in accordance with its policy of providing a working environment in which opportunities for development are based purely on qualifications, skills, performance and ability. This ensures that when vacancies do arise, minority groups can compete equally with other staff.

This year has seen the introduction of a dedicated Equal Opportunities complaints procedure which staff can adopt if they feel they have been discriminated against for any reason; the selection and training of dedicated investigation officers to resolve incidents of harassment; and the continuation of a programme of mandatory Equal Opportunities awareness training for all staff.

2.10 Recruitment

National Savings aims to promote and maintain best practice in the recruitment of staff to meet its manpower needs. To achieve this, selection is based on merit and by fair and open competition and provides equal opportunity for employment regardless of race, sex, disability, marital status or age.

There have been two permitted exceptions to fair and open competition so far this financial year. These were used where casual staff have been recruited to cover short term needs in London (Typing Services and Personnel). No use of permitted exceptions have been made in Blackpool, Durham or Glasgow.

2.11 Public Appointments

We currently have three non-executive members on the Board. Roy Heape was appointed initially in October 1991 and his contract extended until 30 March 1998 (his fifth extension) with the approval of the Economic Secretary on behalf of the Chancellor of the Exchequer. The two other members are Judy Lowe and James Turner. Both were appointed on 1 September 1997 with contracts lasting for three years. Their appointments were approved by the Chancellor of the Exchequer.

2.12 Senior Staff Salaries

Table of senior civil service staff split by salary band is shown below. The information is as at 1 December 1997.

Salary Band	Number of Staff
£50,000 - £54,999	2
£55,000 - £59,999	3
£65,000 - £69,999	1
£70,000 - £74,999	1
£85,000 - £89,999	1
£95,000 - £99,999	1

2.13 Value for Money and Financial

2.13.1 Efficiency and VFM:

The Agency's efficiency target for 1996-97 was 6%, the achievement was 6.7%. For 1997-98 the efficiency target was 3% , and the Agency is on target to achieve this.

During 1996-97 the National Audit Office (NAO) issued a critical report on financial reporting within National Savings. This resulted in a hearing of the Public Accounts Committee in January 1997. Substantial progress has been made in investigating and resolving the problems which are a priority for the Agency.

2.13.2 Running Costs, Staffing and Capital

Tables 2A and 2B show the running costs and staffing resources agreed on the basis of management plans to 1998-99. The cost of administering National Savings is included in public expenditure planning total and is met from a cash limited vote. For 1997-98 the agreed provision is £178 million. The main costs are paying some 4,300 staff years and payments to agents, primarily Post Office Counters Limited. The net capital provision of £3.1 million is predominantly used for the procurement of IT equipment and someexpenditure on buildings and furniture.

TABLE 2A: RUNNING COSTS (£ MILLION)

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Estimated Outturn	1998-99 Plans
Running Costs Gross	198.0	195.0	194.0	190.5	177.9	177.0	172.5
Related Receipts	-1.1	-1.3	-1.3	-2.4	-2.2	-2.2	-1.0
Net Cost	196.9	193.7	192.7	188.1	175.7	174.8	171.5
Civil Service Paybill included in gross running costs	92	89	90	85	80		

TABLE 2B: STAFFING

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Original plans	1997-98 Estimated outturn	1998-99 plans
Permanent Staff	6,223	5,915	5,586	5,043	4,720	4,451	4,194	4,150
Overtime	58	69	61	50	65	42	88	82
Casuals	75	173	182	78	90	70	65	60
Total Staffing	6,356	6,157	5,829	5,171	4,875	4,563	4,347	4,292

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

Running costs provision for 1998-99 remains at the same level as agreed in PES plans last year. Although there is substantially less than for 1997-98 some of the difference can be explained by the move to capital charging for accommodation. The estimated outturn for 1997-98 includes the take up of end year flexibility (2.2 million). Table 2E provides a regional analysis of expenditure and staffing.

TABLE 2C : BREAKDOWN OF FORECAST OUTTURN FOR 1997-98 BY INDIVIDUAL FUNCTION (£ THOUSANDS)

Direct Running Costs	expenditure Other Current	Grants and transfers Capital	Current	Capital	Gross Total	£000s Appropria-tions in Aid	Net Total
177,038	-	3,540	-	-	180,578	2,634	177,944

TABLE 2D: APPROPRIATIONS IN AID FOR 1998-99 (£ THOUSANDS)

NSSR commission receipts	730
Capital Receipts	123
Receipts from other Government departments for ADP services	20
Other Receipts	60
Rents from Minor Occupiers	33
Total	**966**

TABLE 2E: REGIONAL ANALYSIS OF EXPENDITURE AND MANPOWER

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Estimated Outturn	1998-99 Plans
Region							
South East							
Expenditure (£m)	91	87	84	84	81	82	82
Manpower	253	308	291	281	260	245	240
North West:							
Expenditure	33	32	33	32	29	28	26
Manpower (£m)	1,717	1,610	1,508	1,372	1,253	1,150	1,147
North							
Expenditure	35	32	32	31	26	26	24
Manpower (£m)	1,741	1,621	1,529	1,269	1,140	1,129	1,111
Total England							
Expenditure	159	151	149	147	136	136	132
Manpower (£m)	3,711	3,539	3,328	2,922	2,653	2,524	2,498
Scotland							
Expenditure	51	48	48	47	43	42	41
Manpower (£m)	2,512	2,376	2,258	2,121	1,798	1,670	1,652
Total UK							
Expenditure	210	199	197	194	179	178	173
Manpower (£m)	6,223	5,915	5,586	5,043	4,451	4,194	4,150

*includes all expenditure on publicity and advertising and selling agents' fees. Expenditure for 1992-93 and 1993-94 includes the cost of purchasing a new mainframe computer.

The figures in this table are included in the consolidated analysis of the regional expenditure and manpower of the Chancellor's Departments in the Annex to this report.

TABLE 2F: DETAILED ESTIMATE (£ THOUSANDS)

1996-97	1997-98		1998-99
Outturn	**Total Provision**		**Total Provision**
177,909	**177038**	**Running Costs**	**171,976**
	65,943	Head quarters	65,747
	10,389	Publicity and marketing: advertising costs	10,103
	2,065	Publicity and marketing: other costs	2,065
	98,641	Operations	94,061
		Other Current Expentiure	**-1933**
3,520	**3,540**	**Capital Expenditure**	**3,738**
	2,990	IT Expenditure	3,238
	550	Other capital expenditure	500
181,429	**180,578**	**Gross Total**	**173,781**
Less:			
2,225	2,634	**Appropriations in Aid**	966
	2,634	Other Receipts	966
179,204	**177,944**	**Net Total**	**172,815**

2.13.3 Prompt Payment of Bills

The Agency complies with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890). In 1996-97, 97.6% of undisputed bills were paid within 30 days or less compared with 99.2% in 1995-96 and 97.3% in 1994-95. This represents a small decrease on last years percentage which can be attributed to the introduction of the Agency’s Resource Management Accounting System halfway through the monitoring period.

2.13.4 Publicity and Advertising: Information about expenditure

Provision for publicity in the survey period is set out in Table 2G. 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 2G: PUBLICITY (£ MILLION)

1997-98	1998-99
10.4	10.4

2.13.5 Environment

The Agency is committed to carrying out its business taking full account of environmental issues. During the year it commissioned an external audit of waste management and minimisation processes. Recommendations made in the subsequent report have been used to improve environmental action plans within the Agency.

Having exceeded the national target of 15% energy savings in the 5 years to 1995-96 the Agency elected to match the new target of a further 5% saving in the four years up to the year 2000. Initial results are encouraging and suggest that a 5% saving has been posted in the first year giving a cumulative total for 6 years of 24%.

2.13.6 Private Sector Involvement

The strategy review of National Savings was based around the idea of maximising the value created by the Agency. It identified that to do this National Savings needs to modernise the business so that it can be among the best and most efficient providers of savings products. To achieve this the Agency is actively pursuing a public/private partnership.

A major project is in hand to assess whether a private sector partner can reduce risk, add value and efficiency and raise flexibility in the delivery of operational services.

2.14 Accommodation

The Agency is already well advanced on a Private Finance Initiative exercise intended to achieve a value for money solution to its accommodation requirements. Initial proposals have been submitted and are being evaluated. This activity is proceeding in line with the Agency's other major strategic initiatives.

2.14.1 Costs not included in Public Expenditure Control Total

The main costs of National Savings are the interest and prizes paid directly to customers or credited to their accounts. These costs are not included in the public expenditure control total, but are treated in the public sector accounts as non-voted expenditure in the debt interest line.

2.15 Bibliography

The National Savings Annual Report for 1996-97, published in August 1997, contains a review of the year and more detailed information about business transactions, management costs and customer service indicators.

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 Agency Plan 1997 - 98 to 1999 - 2000, issued in April 1997, sets out the strategic priorities for National Savings during the three year period.

3: Registry of Friendly Societies

3.1 Aims and Objectives

The Registry of Friendly Societies provides support services for three statutory authorities: the Building Societies Commission, the Friendly Societies Commission and the Central Office of the Registry of Friendly Societies. The Department and these authorities are linked by a common overall purpose:

> "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."

The main aims of the three statutory authorities are:

3.1.1 Building Societies Commission (BSC)

- to promote the protection by each building society of the investments of its shareholders and depositors;
- to promote the financial stability of building societies generally;
- to secure that the principal purpose of building societies remains that of making loans which are secured on residential property and are funded substantially by members
- to administer the system of regulation of building societies under the Building Societies Act 1986
- To advise and make recommendations to the Treasury and other Government Departments on any matters relating to building societies.

3.1.2 Friendly Societies Commission (FSC)

- to promote the protection by each friendly society of its funds;
- to promote the financial stability of friendly societies generally;
- to secure 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;
- to administer the system of regulation of the activities of friendly societies;
- to advise and make recommendations to the Treasury and other government departments on any matter relating to friendly societies .

3.1.3 Central Office of the Registry

- to enable all mutual societies to benefit from the business, legal and/or cost advantages of registration;
- to maintain and provide access to an acccurate and up to date Public Record File containing information about each society's constitution and finances.

Expenditure by the Registry of Friendly Societies falls on Class XVI, Vote 9. 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. Each objective is discussed below along with achievements and plans for the future.

3.2 Summary of progress to date and future plans

The Economic Secretary to the Treasury, Mrs Helen Liddell, announced on 23 July 1997 that all the functions carried out by the Building Societies Commission, the Friendly Socities Commission 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). This transfer of the Registry's function is expected to take in place in the second half of 1999 depending on Parliament's approval of the proposed Financial Regulatory Reform Bill which will be published for consultation in the summer of 1998. Registry staff are playing their full part in discussions with the other regulatory bodies involved in order to achieve a smooth and successful transfer of the Department's functions to the FSA.

The BSC, the FSC and the Central Office each report formally to Parliament and full details of each organisation's activities, progress and achievements during 1996-97, are provided in their respective annual reports (see bibliography).

OBJECTIVE 1: TO SUPPORT THE BSC IN SUPERVISING AND REGULATING BUILDING SOCIETIES

The main focus for the work of the Building Societies Commission was, as in previous years, the prudential supervision and regulation of building societies. During 1996-97 many building societies strengthened their competitive stance by offering a variety of benefits to their members, while maintaining strong capital ratios and continuing to reduce arrears.

In addition, the Commission was closely involved in the final preparation and passage into law on 21 March 1997 of the Building Societies Act 1997. During 1997 the Commission also supervised and confirmed the proposals of five large societies to leave the sector by converting to plc status or in one case by transferring its business to a bank.

During the past year five Statutory Instruments were made under the 1986 Act, three by the Commission and two by the Treasury on Commission advice. Currently there are 73 statutory instruments still in force out of 131 made under the 1986 Act. A significant number will cease to have effect once the 1997 Act has been fully implemented. The prudential supervisory regime was supported by the issue of two Prudential Notes, one Guidance Note and 25 'Dear Chief Executive' letters.

OBJECTIVE 2: TO SUPPORT THE FSC IN SUPERVISING AND REGULATING FRIENDLY SOCIETIES

The main focus for the work of the Friendly Societies Commission was the supervision and regulation of friendly societies. In addition Commissioners continued their programme of visits to Directive Societies - those subject to the EC's Life and Non-Life Directives - to discuss their operational performance. The Commission promoted a number of deregulatory orders which were approved during the year in order to reduce supervisory 'red tape' on societies.

In total the Commission issued six Chief Executive Letters.

OBJECTIVE 3: TO SECURE THE MAXIMUM COOPERATION AND SUPPORT FROM REGISTERED SOCIETIES TO MINIMISE THE NEED FOR RECOURSE TO REGULATORY SANCTIONS OR PROSECUTIONS

It has again been reassuring to note that it has not been necessary for the BSC or FSC to have recourse to their statutory powers of control (see below for Central Office).

The performance of industrial and provident (I&P) societies and societies under the Friendly Societies Act 1974 (FSA74) in meeting their obligations to submit their annual returns (and accounts) within specified time limits is expected to be assisted by Orders made under the Deregulation legislation which now gives longer time spans in which to submit returns and accounts. However it is too early to assess the full effect of these new provisions on the overall submission rates. It was necessary, however, to bring prosecution action against more than thirty industrial and provident societies and FSA74 societies for failure to submit annual returns or accounts.

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 1997 some 9,500 annual returns were filed together with over 4,000 other formal documents. There were also approximately 2,500 searches of public record files. The Central Office has continued to try to ensure that the public record file kept up to date by 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 Department has also continued to contribute to EC discussions on the Economie Sociale.

OBJECTIVE 5: ***TO SUPPORT THE CENTRAL OFFICE'S REGISTRATION, SUPERVISION AND REGULATION OF CREDIT UNIONS.***

There are now some 600 credit unions (an increase of 50 over the previous 12 months) with assets totaling over £100 million. A full programme of pre-registration and supervisory visits has been undertaken since last year. The effectiveness of supervision has been increased by the introduction of new return forms which provide better focused and more relevant monitoring information. Guidance notes on Management and Systems and the Deregulation Order were issued and the "Guidance Note for New Credit Unions" was revised.

A Credit Union Liaison Working Party has been set up involving the Registry, representatives from the three promoting bodies and other parties interested in the future of the credit union movement. These meetings have, among other things, provided a forum for discussions on the creation of a share protection scheme to cover all credit unions and proposals for new legislation.

3. 3 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***

The Department has continued its efforts to improve efficiency and reduce staff numbers in line with the decisions taken following a Fundamental Expenditure Review covering the work of the Department at all levels in 1995.

Services and effectiveness continue to be improved by the use of **information technology**:

- There are now 18 building societies submitting their supervisory returns by electronic data transfer, which reduces errors, speeds processing time and reduces costs. A new version is being developed and it is hoped to encourage use of this by most societies.

- Full use has been made of a new computer based information system (TRACS 1 and 2) introduced during 1994 and 1995 and enhancements have been made, in particular to the TRACS 1 system which is used to record operational information on registration matters. The system also improves the ability of 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.
- A new cash and accruals based computerised accounting system was implemented from April 1995 and the second set of annual accounts was produced using it following the last financial year end. The system has streamlined payments procedures; has allowed the Department to develop its devolved budgetary procedures; and has led to improved and more timely management information. In order to improve control over assets a computer based asset register, utilising bar coding was introduced during the year.

Performance indicators are in use across the Department and financial performance is reported on an accruals basis for both the BSC and FSC (satisfying Companies Act requirements).

Overall supervisory accruals cost indicators are calculated for BSC and FSC. These indicators relate costs to the total assets of the societies supervised. We also keep under review our costs in relation to those of other supervisors and the number of legal entities that are within business groups supervised.

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 month 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:

- Variable targets of between 7 and 42 days for different case types which are fed into the TRACS 1 computer systems (95 per cent of cases within target).
- Files provided for Public Search customers: 3 hours (95 per cent achieved)
- Copying for search customers: 2 working days (85 per cent achieved)
- Acknowledgment of correspondence within 2 days if no substantive reply likely within 5 days (this reduces the number of reminders received from societies)

In addition, the percentage of annual returns received on time is monitored (duting 1997 it was 71 per cent fractionally better than 1996 which in turn reflected a considerable improvement over previous years).

Prompt payment of bills is monitored: last year the Department 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 1/6/96 to 31/3/97 shows that 95.9 per cent of invoices were paid within the payment policy terms.

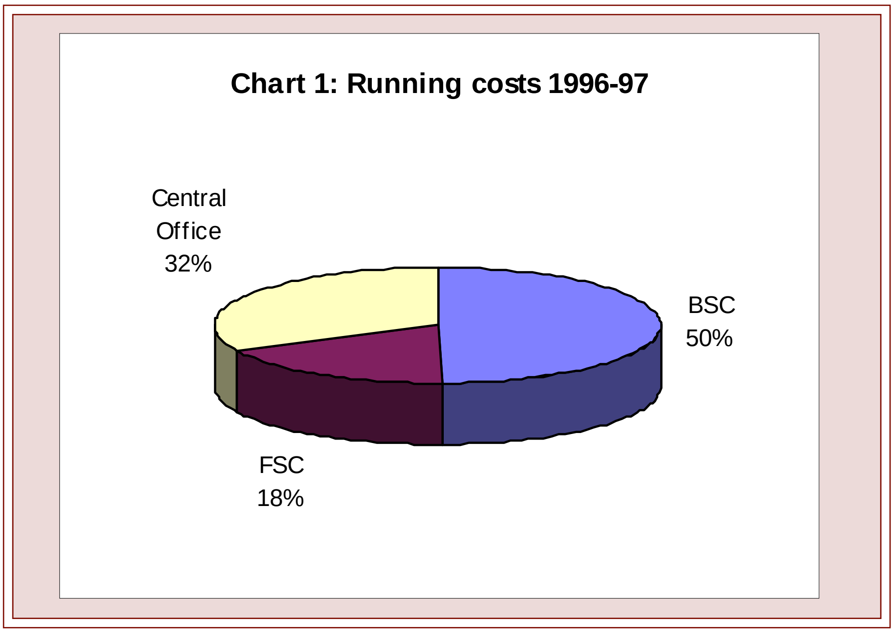
The Department moved to a new building in January 1997. Space management techniques were used to reduce the amount of space needed (by 23%) and the refurbishment process was undertaken with all due regard to environmental objectives. Measures introduced include a heating and cooling system using versatemp units which are controlled by a Building Management System. Excess heat can be re-used and ventilation provides overnight cooling during the summer months saving energy. The Department has also entered into a facilities agreement with an outside organisation to provide building maintenance services more cost effectively.

3.4 DEPARTMENTAL RUNNING COSTS, CAPITAL AND STAFFING

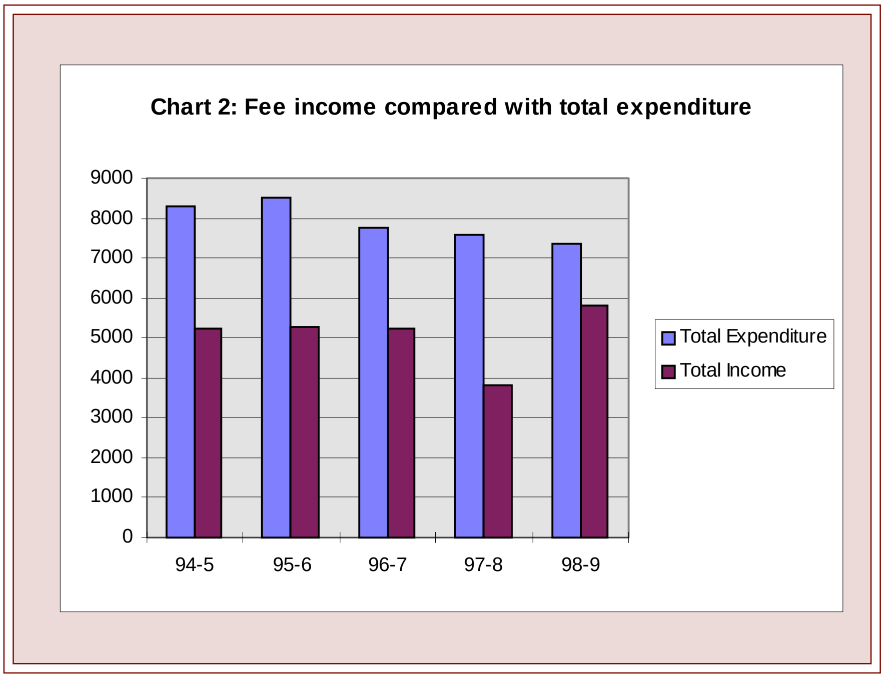
Running costs are split between the Building Societies Commission (BSC), the Central Office and the Friendly Societies Commission (FSC) see Table 1 and Chart 1.

TABLE 1: RUNNING COSTS AND STAFFING **£ MILLION**

Vote section 9 A	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Estimated Outturn	1998-99 Plans
Running Costs	8	8	8	8	8	7	7
Related Receipts	(4)	(5)	(5)	(5)	(5)	(4)	(6)
Net cost	3	3	3	3	3	4	1
Paybill	4	5	5	5	5	5	
Civil Service Manpower (FTE's)	167	177	183	172	168	162	158



All Department's expenditure is in support of its administration. Running costs of £7.2 million in 1998/99 are split between the three statutory bodies; the Building Societies Commission (BSC), the Friendly Societies Commission (FSC), and the Central Office (CO). The breakdown of these figures is expected to be; BSC -£3.6m, FSC -£1.3m and CO - £2.3m.



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 will be increased over a period of years so as to achieve full cost recovery in due course. (See table 2 below).

TABLE 2: APPROPRIATIONS IN AID

	1996/97 actual	1997/98 estimated outturn	1998/99 plans
General charge on building societies	3.46	2.25	4.00
General charge on friendly societies	0.78	0.84	0.98
Statutory fees from mutual societies	0.95	1.06	0.83
Sales of publications	0.01	0.01	0.01
Total	**5.20**	**4.16**	**5.82**
Consolidated Funds Extra Receipts	1.68	---	---

TABLE 3: BREAKDOWN OF FORECAST OF OUTTURN FOR 1997-98 BY INDIVIDUAL FUNCTION (£ MILLION)

Direct expenditure			Grants and transfers				
Running Costs	**Other Current**	**Capital**	**Current**	**Capital**	**Gross Total**	**Appropria-tions in aid**	**Net Total**
7.3	--	1.4	--	--	8.7	4.2	4.6

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, 2 Executive Officers and 8 Administrative Officers. Two of the recruits were women and four of those recruited were from ethnic minorities. One of the recruits was disabled.

Of the Registry's staff, 57 per cent are men and 43 per cent are women, with women accounting for 23 per cent of staff at Grade 7 and above. Ethnic minorities accounted for 27 per cent of staff.

Senior Staff Salaries

The following table shows the number of senior civil servants by salary band at 1 December 1997.

Salary Bands	Number of Staff
Below £40,000	1
£40,000 - £44,999	0
£45,000 - £49,999	1
£50,000 - £54,999	3
£55,000 - £59,999	1
£60,000 - £64,999	3
£65,000 - £69,999	0
£70,000 - £74,999	1
£75,000 - £79,999	0
£80,000 - £84,999	1

Capital Asset Valuation.

In addition to a small office in Edinburgh, the Department currently occupies one Central London building which is on the Common User Estate and is subject to a rental agreement. Capital assets principally comprise computer equipment and fitting-out costs resulting from the move to a new building in January 1997.

Computers

Cost or valuation	£000's (rounded)
at 1 April 1996	1,185
Additions	110
Disposals	145
Revaluation	
at 31 March 1997	1,220
Depreciation	
at 1 April 1996	590
provided in year	220
eliminated in respect of disposals	145
at 31 March 1997	665
Net book value	
at 1 April 1996	595
at 31 March 1997	555

3.5 Bibliography

The following publications are available from the Department:

Report of the Chief Registrar 1996-97 (£10.00)

Annual Report of the Building Societies Commission 1996-97 (£12.50)

Annual Report of the Friendly Societies Commission 1996-97 (£5.00)

4: National Investment and Loans Office

4.1 Aims, Objectives and Responsibilities

The National Investment and Loans Office (NILO) provides the staff and administrative support for the National Debt Office (NDO), the Public Works Loan Board (PWLB) and the Office of HM Paymaster General (OPG).

The NDO's main function is to invest and manage certain public funds such as the National Insurance Fund and the monies generated by the National Lottery for good causes pending drawdown by the Distribution Bodies. The objectives of each fund are agreed with the client and include meeting the clients' cash requirements and maintaining capital cover for the fund's liabilities. Currently the NDO actively manages 13 funds with a total asset value of over £15 billion. The NDO will also act as a repository for gilt-edged securities pending sale to the market, until this role transfers to the Debt Management Office in the course of 1998-99.

The function of the PWLB is to make loans, from Central Government funds, primarily to local authorities and to collect repayments. Its aim is to ensure that loans are made correctly and that there is no loss to the Exchequer. The total debt outstanding at 31 March 1997 was £42.1 billion. The Public Works Loan Board is an independent and unpaid statutory body which originated in 1793 and became established on a permanent basis in 1817. Since 1946 it has consisted of twelve Commissioners appointed by the Crown to hold office for four years; three Commissioners retire each year on 1 April but are eligible for re-appointment. Information regarding the Commissioners is given in paragraph 4.4.3 below.

In preparation for the privatisation of the Paymaster Agency on 1 April 1997, it was decided that the management of OPG accounts at the Bank of England and of the banking services contract with the privatised supplier, should remain in the public sector. Consequently, with effect from 1 November 1996, the OPG was separated from the Agency and became part of NILO. OPG responsibilities include providing financial information to support Treasury's analysis of central government expenditure, principally as an aid to monitoring, and the management of the contract with the privatised supplier to ensure effective delivery of services to OPG banking customers who are principally government departments and NHS bodies.

NILO's 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.

4.2 Progress to date and plans for 1998-99

NDO AND PWLB

The PWLB has for many years processed its records by computer and since 1990 the NDO's accountancy records have been computerised. The workload of the department changed little until 1994, when the NDO undertook new statutory responsibilitiesrelating to the National Lottery - in 1997, the NDO also took on responsibilities relating to the management of funds lodged by the Northern Ireland Courts Service. These added responsibilities were undertaken without any increase in resources and, after adjustment for the reduction in work detailed in paragraph 4.1, are estimated to have increased the workload of NILO by over 5%. The business of the NDO and PWLB is demand led and fluctuates widely for reasons outside of their control (e.g. capital needs of local authorities, interest rate levels, level of deposits and withdrawals, gilt-edged market conditions and activity etc.). Measures based on actual numbers of transactions may be misleading due to the factors mentioned above and the need to maintain the capacity to deal with the fluctuating demand. The figures below are based on a level of business to reflect that capacity and to compare year on year progress on a standard basis. The target is to reduce, in real terms, the running costs per transaction on this basis by an average of 1.5 per cent per annum - the table below illustrates the progress in curtailing costs measured accordingly.

TABLE 4A: RUNNING COSTS PER TRANSACTION (1996-97 PRICES (£)

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 Estimated Outturn	1998-99 Plans	Percentage Change in period
NDO	14.80	13.45	13.37	13.17	12.82	12.63	12.44	(-15.9)
PWLB	19.26	18.85	19.00	17.78	14.83	14.62	14.40	(-25.2)

OPG

For 1997-98, OPG continues to deliver banking services at the same prices as in 1996-97, providing a real terms price decrease of around 3% to its customers.

4.3 Running Costs, Staffing and Capital

Tables 4B and 4C show the running costs and staffing resources allocated to NILO. Expenditure in 1997-98 will fall on Class XVI Vote 10 and is entirely for salaries and other running costs of the Department. The additional running costs and staffing levels for 1997-98 onwards as detailed in Tables 4B and 4C are the results of OPG becoming part of NILO (see paragraph 4.1). 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 4B : RUNNING COSTS (£ MILLION)

	1992-93 Outturn	**1993-94 Outturn**	**1994-95 Outturn**	**1995-96 Outturn**	**1996-97 Estimate Outturn**	**1997-98 Plans**	**1998-99 Plans**
NILO running costs gross	1.3	1.3	1.3	1.3	1.4	1.2	1.2
(of which paybill)	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)		
OPG running costs gross	0.3	0.3	0.3	0.3	0.3	0.3	0.3
(of which paybill)	(0.2)	(0.2)	(0.2)	(0.2	(0.2)		
NILO receipts	1.3	1.3	1.3	1.3	1.4	1.2	1.2
OPG receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net cost	0.2	0.2	0.2	0.2	0.2	0.2	0.2

TABLE 4C : STAFFING

	1992-93 **Outturn**	1993-94 **Outturn**	1994-95 **Outturn**	1995-96 **Outturn Outturn**	1996-97 **Estimated**	1997-98 **Outturn**	1998-99 **Plans**
	39	38	36	34.7	32.4	36.8	36.8

NILO has only one member of the senior Civil Service who is in the pay band £55,000-£59,999.

TABLE 4D: BREAKDOWN OF FORECAST OUTTURN FOR 1997-98 BY INDIVIDUAL FUNCTION (£ MILLION)

Direct Expenditure			Grants and Transfers				
Running Costs	Other Current	Capital	Current	Capital	Gross Total	Appropriations in Aid	Net Total
1.5	4.4	-	-	-	5.9	5.3	0.6

TABLE 4E: BREAKDOWN OF FORECAST APPROPRIATIONS IN AID (£ MILLION)

	1998-99
Section A	1.7
Section B	3.6
Total	5.3

TABLE 4F: DETAILED ANALYSIS OF CONSOLIDATED FUND EXTRA RECEIPTS (£ MILLION)

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Estimated Outturn	1997-98 Plans	1998-99 Plans
I	1.2	0.6	0.6	1.0	1.1		
II	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Total	1.4	0.7	0.8	1.2	1.2	0.1	0.1

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

NILO is complying with the CBI prompt payment code. The Department's policy is to pay bills in accordance 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. In practice, all bills are settled, subject to verification, within 10 working days of receipt. In the event of complaint, suppliers are invited to write personally to the Principal Finance Officer or Director of NILO and are given telephone contact numbers to use in raising any queries.

4.3.1Capital Assets

Capital assets consist of three small computer systems and general equipment including personal computers valued at approximately £150,000.

4.4 Management in the Department

4.4.1 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 the Treasury to consider and adopt environmental initiatives.

4.4.2 Equal Opportunities

NILO has only four officers in senior management positions of which one is a woman. As the Department is very small and has a minimal staff turnover, there is no practical way of setting meaningful targets in relation to equal opportunities policy.

4.4.3 Public Appointments

The Public Works Loan Commissioners holding office during 1997-98 were:

Original appointment began		Current appointment ends
1994	**A.D. LOEHNIS**, **CMG** Director, St James's Place Capital plc; Former Director, SG Warburg Group plc; Former Executive Director, Bank of England	1998
1978	*Deputy Chairman* **Miss V.J. DI PALMA**, **OBE** Director, Mobile Training Limited; President, Chartered Association of Certified Accountants 1980-81	1998
1990	**G.G. WILLIAMS** Former Director, Schroders plc	1998
1995	**L.B. WOODHALL** Former Director of Finance, Ynys Mon-Isle of Anglesey Borough Council; Chairman, Association of District Council Treasurers in Wales 1994-95	1999
1995	**DAME SHEILA MASTERS, DBE** Partner, KPMG; Non-Executive Director, Bank of England Vice President, Institute of Chartered Accountants in England and Wales	1999

Original appointment began		Current appointment ends
1996	**MRS R.V. HALE** Director, Rita Hale & Associates Ltd; Former Head of Local Government Division, Chartered Institute of Public Finance and Accountancy	2000
1996	**J.A. PARKES, CBE** Former Chief Executive, Humberside County Council; President, The Society of County Treasurers 1987-88	2000
1996	**R. BURTON** Former City Treasurer, Birmingham City Council; President, Society of Metropolitan Treasurers 1996-97	2000
1996	**J. ANDREWS** Director of Finance, Glasgow City Council	2001
1997	**B.M. TANNER, CBE** Former Chief Executive, Somerset County Council; President, Society of County Treasurers 1989-90	2001
1997	**T.W. FELLOWS** Former Deputy Chairman, Gerrard & National Holdings plc; Chairman, London Discount Market Association 1995-97	2001
1997	**MRS R. TERRY** Director, HACAS Exchequer Services Limited; Former Partner, Touche Ross & Co.	1999

4.4.4Recruitment

Due to NILO's small size (37.8 staff planned for 1998-99) there is no regular recruitment. A monitoring review conducted in 1994 found that NILO clearly recognised the need for selection to be on merit on the basis of fair and open competition, and fully intended to use appropriate procedures to achieve this.

There were no occasions during 1996-97 on which the permitted exceptions to fair and open competition were used.

4.5 Bibliography

Detailed background and statistical information on the PWLB can be found in the Public Works Loan Board Annual Report for 1996-97.

5. Office for National Statistics

5.1 Introduction

The Office for National Statistics (ONS) was created as a government department and an executive agency on 1 April 1996 by merging the Central Statistical Office (CSO) and the Office of Population Censuses and Surveys (OPCS). It has about 3000 staff operating in London, Newport (Gwent), Runcorn, Southport and Titchfield (Hampshire).

The creation of the ONS underlines 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 recognises 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 Government is pledged to an independent National Statistical Service. This pledge has implications for ONS and for the wider GSS. Ministers are considering how best to take this work forward.

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

5.2 Aims and Objectives

ONS has responsibilities which are both statistical and administrative. The following aims and objectives are provisionally proposed, pending the completion of the Departmental Spending Review.

5.2.1 Aim

To provide world class statistical and registration services

5.2.2 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

5.2.3

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 in line with Government policies. 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 soceity for high quality information;
- improve value for money and operate efficiently and effectively.

To achieve thes, ONS must:

- develop and maintain a well motivated workforce.

5.2.4 Business Strategy

ONS operates in an information market which is rapidly expanding and increasingly complex, hugely impacted by technological change. This provided ONS both with opportunities and threats. In its first year the ONS Board has developed a business strategy for the three years covered by its business plan and beyond, to provide the direction needed to achieve the ONS vision and support the business. Our business planning is designed to ensure that maximum leverage is obtained from ONS resources to deliver, in partnership with others, the business strategy and the wider agenda for national statistics in ONS across the GSS and beyond.

ONS intends first and foremost to maintain the high quality statistical and registration outputs on which its existing customers depend, but plans to build from this base and be innovative and responsive to future challenges.

There are three main elements to the business strategy:

- making an impact
- building the infrastructure
- effective use of resources.

These are described in more detail in the ONS Business Plan 1997-2000.

The activities of ONS are currently being reviewed as part of the overall Comprehensive Spending Review.

5.3 Better Regulation

5.3.1 Reducing burdens on business

ONS has responsibility not only to ensure the internal efficiency of its operations, but also to ensure that the burdens on business respondents to government surveys are minimised. These responsibilities are exercised through the Survey Control Unit, whose remit covers all government departments. The aim is to substantially reduce the costs to business of complying with surveys without impairing the quality of essential economic statistics.

Compliance planning is now an integral part of the annual planning process. In May 1996 ONS published its first Compliance Plan which showed that the burden on business imposed by our surveys had fallen by 30 per cent in real terms from its peak in 1994.

The recommendations of the Osmotherly Committee were taken into account in the second ONS Compliance Plan published in March 1997. The "Osmotherly guarantee" relating to survey holidays for small firms was implemented in ONS inquiries from January 1997. A key initiative has been the development of ONS modules, in partnership with accountancy software firms, for easy extraction of survey information from commercial software packages using standard reports. The first ONS module for an accounting package was introduced in October and is being used to pilot collection in the 1997 round of surveys.

The 1997 Compliance Plan set challenging targets for the future level of compliance costs which are expected to rise slightly in 1998 before falling again in 1999. This is due to the effect of the introduction of the Annual Business Inquiry (ABI) and the preparation for the requirements of the European Structural Business Regulation.

5.3.2 Reducing burdens on individuals

ONS implemented three measures using powers in the Deregulation and Contracting Out Act 1994. The first was the Deregulation (Still-Birth and Death Registration) Order 1996 which provided for the registration of still-births and deaths by means of a declaration of the particulars to be given to a registrar in any sub-district in England and Wales. The Order, which came into force on 1 April 1997, made it no longer always necessary for the bereaved to travel to the district where the death occurred to give information to the registrar.

The second was the Contracting Out (Functions of the Registrar General in relation to authorising re-registration of births) Order 1997 which enabled registrars, in straightforward cases, to authorise the re-registration of certain births on behalf of the Registrar General. Whereas previously all applications were dealt with centrally, this Order means that most applications for re-registration are being handled locally providing a swifter, more customer-focused service. The Order came into force on 1 July 1997.

The third followed the Marriage Act 1994 and the continuing pressure on superintendent registrars, from members of the public, to accept provisional bookings for marriages. The Deregulation (Validity of Civil Preliminaries to Marriage) Order 1997 extended the period in which couples could undertake the civil preliminaries to marriage from three to twelve months, thus providing greater certainty of their booking. It came into force on 1 October 1997.

5.4 Efficiency and Value for Money

Increased efficiency is essential to release the resources required to deliver the wider remit of ONS within the climate of reducing public expenditure. This is an integral part of the ONS business planning process.

ONS has set an efficiency savings target of £4.2m for 1997-98 with a longer term aim of a 4 per cent saving per annum for the following two years.

The key features of ONS's efficiency planning are to continue to seek reductions in the operating costs of large surveys; to improve the accessibility and use of statistics; to match the range and quality of data to customers' requirements and ability to pay; and to review the sourcing and delivery of IS support services in the new organisation. The Office uses a wide range of tools to achieve efficiency improvements. These include efficiency scrutinies, benchmarking, business process re-engineering and market testing.

ONS has identified technology and statistical methodology as the key drivers for future change and efficiency improvements. Management and efficiency reviews linked to re-design of IS systems are supplemented by a rolling programme of internal scrutinies to drive change and deliver efficiencies.

Plans and figures are recorded in the ONS Business Plan.

5.5 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 5A: RUNNING COSTS (000)

	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 estimated Outturn	1998-99 Plans
Running Costs, Gross Control							
Gross running Costs	101,492	96,872	101,476	106,409	98,607	99,775	103,104
Related receipts	(10,020)	(12,953)	(12,936)	(14,710)	(14,245)	(9,487)	(11,875)
Net expenditure	91,472	83,919	88,540	91,699	84,362	90,288	91,229
Running Costs, Net Control							
Gross running Costs	25,358	26,775	26,622	26,176	16,564	16,790	16,607
*Related receipts	(24,224)	(27,150)	(26,459)	(25,977)	(15,521)	(17,554)	(17,808)
Net expenditure	1,134	(375)	163	199	1,043	(764)	(201)

The 1996-97 net running cost limit of -£204,000 was breached by £1.247 million. The underlying reason for the breach was an administrative error which resulted in the double counting of forecast receipts when the former CSO and OPCS departments were merged. There was no breach of the gross running cost limit and no overspend on the Vote as a whole.

TABLE 5B: STAFF (STAFF YEARS)

	1992-93 Outturn	1993-94 Outturn	1994-5 Outturn	1995-96 Outturn	1996-97 Outturn	1997-98 forecast Outturn	1998-99 plans
(Gross Control Area)							
Staff FTEs	3,336	3,153	3,010	2,914	2,866	2,690	2,881
(Net Control Area)							
Staff FTEs	636	513	573	514	387	415	383
Totals	**3,972**	**3,666**	**3,583**	**3,428**	**3,253**	**3,105**	**3,264**

The outturn figures for 1992-93 to 1996-97 shown in the above tables reflect the combined outturn for CSO and OPCS. Plans for 1996-97 onwards reflect the costs of ONS - the new enlarged Agency.

TABLE 5C: SENIOR STAFF SALARIES

Numbers of senior staff within each, 5,000 band

Pay Band *(000s)*	No. of Senior staff *(Numbers)*
40 - 45	3
45 - 50	10
50 - 55	8
55 - 60	6
60 - 65	1
65 - 70	3
70 - 75	1
75 - 80	-
80 - 85	-
85 - 90	-
90 - 95	-
95 - 100	1
Total	**33**

The table below shows the reconciliation of the ONS cash plans with Estimates.

TABLE 5D: RECONCILIATION OF CASH PLANS WITH THE ESTIMATES (£,000s)

Business Area	1997-98	1998-99
(Programme 13)		
Section A		
Gross Running Costs	105,014	103,104
Other current	1,000	1,000
Capital	4,880	5,163
Receipts	-12,506	-12,028
	98,388	**97,239**
Section B		
Gross Running Costs	15,790	16,607
Capital	654	654
Receipts	-16,749	-17,003
	-305	**258**
ONS CASH PLANS	**98,083**	**97,479**
(Program 27 (EC)		
Section A		
Receipts (Eurostats)	-1,000	-1,000
ONS ESTIMATES	**97,083**	**96,497**

The following table shows 1997-98 forecast outturn, and 1998-99 planned expenditure and receipts by business activity areas.

TABLE 5E: BREAKDOWN OF FORECAST OUTTURN FOR 1997-98 BY INDIVIDUAL FUNCTION

	Direct Expenditure			Grants and transfers				
	Running costs	**Other current**	**Capital**	**Current**	**Capital**	**Gross total**	**Appropria-tions in aid**	**Net total**
Central government own expenditure	99,490	807	6,684	-	-	106,981	9,919	97,062
Customer funded activities	16,390	-	658	-	-	17,048	17,406	-358

TABLE 5F: EXPENDITURE AND RECEIPTS BY BUSINESS AREA

	1997-98 (Forecast Outturn)		(£000s) 1998-99 (Plans)	
	Expenditure	**Income**	**Expenditure**	**Income**
Income Business Statistics	14,900	1,200	13,963	1,200
Macro-Economic Statistics and Analysis	7,000	400	6,702	180
Socio-Economic Statistics Analysis	17,000	400	17,661	460
Census, Population and Health	14,700	4,300	18,448	3,840
Survey and Statistical Services	19,200	7,600	20,762	8,06
Administrative Services and Registration	51,000	12,900	45,601	12,900
Accommodation	14,800		16,374	
Other	22,200		16,329	
Registration	14,000		12,898	
Total	**123,800**	**268,00**	**123,137**	**26,640**

5.6 Capital Expenditure

TABLE 5G: CAPITAL EXPENDITURE (000)

	1992-93 Outturn	1994-95 Outturn	1995-96 Outturn	1995-96 Outturn	1996-97 Outturn Outturn	1997-98 Forecast	1998-99 Plan
(Gross Control)							
Capital Expenditure of which:	6,334	6,136	4,693	10,961	23,392	6,684	4,600
Drummond Gate	-	-	-	850	15,622	900	-
(Net Control)							
Capital Expenditure	916	692	407	600	654	658	-

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 systems and software for ONS. The remaining expenditure will be mainly for capital building works on other sites.

5.7. Capital Assets

Capital Assets as at 31st March 1997 are shown in Table 5H

TABLE 5H: CAPITAL ASSETS AT 31 MARCH 1997 (£M)

	Computers	Office Equipment	Fixtures & Fittings	£ million Total
Net book value as at 31 March 1997	6.8	0.7	0.8	8.3

5.8. Tangible fixed assets

TABLE 5I: TANGIBLE FIXED ASSETS

	Computers £'000	Motor Vehicles £'000	Other Equipment £'000	Furniture £'000	Total £'000
Valuation at 1/4/96	21,698	141	2,990	1,642	26,471
Additions	4,359	10	166	0	4,535
Adjustments (note 2)	(8,975)	0	(339)	(1,642)	10,956
Disposals	(359)	(10)	(5)	0	(374)
Revaluation (note 1)	(1,467)	2	0	0	(1,465)
	15,256	**143**	**2,812**	**0**	**18,211**
Depreciation as at 1/4/96	8,445	60	1,479	0	9,984
Charge in yeat (note 1)	2,264	24	241	0	2,529
Adjustments (note 2)	(2,583)	0	(158)	0	(2,741)
Disposals	(322)	(6)	(5)	0	(333)
Revaluation (note 1)	(715)	1	0	0	(714)
	7.089	**79**	**1,557**	**0**	**8,725**
Net Book Value at Current Cost at 1st April 1996	13,253	81	1,511	1,642	16,487
As at 31st March 1997	8,167	64	1,255	0	9,486
New Book Value at Historic Cost at March 1997	9,104	63	1,224	0	10,391

Notes:

1 Total Depreciation charge in the Net Expenditure account of £3,280,000 represents the £2,529,000 in year charge and (£751,000) revaluation.

2 Adjustments have been written back to the Net Expenditure Account and include ex-CSO furniture (ONS does not capitalise its furniture purchases), ex-CSO assets falling below the ONS capitalisation limit of £2,000, differences between ONS and ex-CSO treatment of asset lives and revaluation indices and other adjustments arising from a physical stock check of all ex-OPCS and ex-CSO assets.

5.9 Public/Private Partnerships

In recent years there has been a growing use of partnerships with both public and private sector organisations. Partnership with other government departments lies at the heart of ONS's work. The whole Government Statistical Service is based on the concept of partnership with 50 per cent of GSS staff based in ONS.

Other noteworthy partnerships within government include the Public Records Office where, following the establishment of the Family Records Centre in April 1997, the public search facilities of both ONS and the PRO are housed together to provide an integrated family history service; the Department of Health with whom ONS works particularly closely on a number of issues such as the NHS Central Register and the General Practitioner database which is funded by DH on a full repayment basis but the data is available to ONS for analysis; and the ten yearly Census which is a collaborative operation between ONS and the other census offices in Scotland and Northern Ireland.

In addition, ONS works with the Lord Chancellor's Department (divorces), the Home Office (Parliamentary Boundary Commission), Ordnance Survey (maps for censuses), Home Office (civil status including marriage and transsexuals), the Department of Health (adoptions), Foreign and Commonwealth Office (overseas registration), the Ministry of Defence (forces registration) and others as the occasion demands.

ONS also works in close partnership with European and international organisations, with universities and other public bodies.

There is increasing use of partnerships with private companies, one of the most important being the census agencies which are private companies to whom ONS sells sets of census data but with whom it has an arrangement whereby royalty payments are made from sales by companies of added value products. Arrangements of a similar nature include that by Registration Division involving partnership with the private or "not for profit" sector. In-house staff and consultants are working to develop an IS strategy, while Social Survey Division is collaborating with the Social and Community Planning Research (SCPR), an independent research institute, on the Family Resources Survey for the DSS and the EC Household Panel. Finally, our Marketing Division is working on an arrangement with Reuters to extend dissemination of ONS statistics, and with Blackwells for the sale of ONS publications in their shops - all at no cost to ONS.

ONS makes considerable use of the private sector to carry out functions originally performed in-house. Cleaning, security and catering are services which in some locations have been supplied by private sector for some years. Payment of salaries and internal audit are also contracted out, as is building maintenance.

5.10 Maladministration/Prompt Payments

ONS is committed to the CBI prompt payment code and aims to pay all invoices within thirty days of receipt of goods or presentation of a valid invoice, whichever is the latest. Payment performance has been good; 88.7 per cent of invoices were paid within 30 days of receipt. There were no payments for maladministration during the year.

5.11 Equal Opportunities

ONS is striving 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 current employees are judged purely on merit. An action plan was published in August 1996, circulated to all staff, and is currently being reviewed.

The aims of the programme are:

- to build on the existing expertise of our staff and to attract and develop a high quality well motivated work force;
- to offer all staff personal development opportunities and to promote a culture which encourages and rewards good performance;
- to review and improve all our Personnel systems and practices, especially in recruitment, promotion and training
- to work towards the elimination of discrimination and prejudice by, amongst other means, organising equal opportunities awareness training for all staff.

ONS's Equal Opportunities Officer will prepare annual progress reports. In addition an Equal Opportunities Working Group has been set up comprising those responsible for carrying out the action points in this programme and the DTUS. The group is chaired by the Principal Establishment Officer.

As well as the more established programmes of action for women and ethnic minority staff ONS is placing more emphasis on action for staff with disabilities. This includes ensuring compliance with the Disability Discrimination Act 1995. We use the

Employment Service "two ticks" positive about disability symbol in all recruitment.

ONS will be reporting on the equal opportunities aspect of its recruitment practices in its Annual Report.

5.12 Citizens Charter

ONS published a "Charter Statement for Customers and Suppliers" to coincide with its launch in April 1996. In October 1996, ONS also published a "Business Charter" explaining the basis on which ONS aims to work with businesses, both as users and providers of data.

From April 1997, the new Family Records Centre was opened to the public. This is shared with the Public Record Office's Census Rooms. This shared public search facility offers an improved service to customers.

5.13 Energy and the Environment

ONS is committed to the UK's strategy on sustainable development and aims continually to improve the management of its own resources. A Green Housekeeping Policy Statement was launched in December 1997. It commits ONS to:

- minimising the use of energy and other resources, particularly those which are scarce or non-renewable while still providing a safe and comfortable working environment;
- phasing out ozone-depleting substances and minimising the release of greenhouse gases and other substances damaging to health and the environment;
- reducing waste, re-cycling more, and using recycled products and materials wherever possible;
- meeting all relevant statutory regulations and official codes of practice e.g. Environment Protection Act 1990 - Duty of Care, Health and Safety at Work Act and Code of Practice, COSHH regulations, and requiring contractors to do the same;
- ensuring that buildings in the ONS portfolio are designed, constructed and operated to minimise their impact on the environment;
- encouraging suppliers to provide "greener" goods and services where this meets quality requirements and provides value for money (in the context of this policy statement, value for money also means taking into account the life cycle costs of the product, not just the purchase cost);

- providing staff with information, training, supervision and encouragement to carry out their duties with minimum impact on the environment;
- co-operating with others in the public and private sectors to develop and promote sound practices.

Despite resource constraints, work is already being done on most ONS sites, e.g. the introduction of energy efficient lighting, the recycling of waste paper and aluminum cans, increasing use of electronic means of communication, water saving devices in toilets, etc. Main sites now have building energy management systems to help control the office environment, and energy usage is being closely monitored. Negotiations with The Buying Agency have opened with the aim of achieving a better energy procurement deal for ONS. To keep up-to-date with developments in energy and environment issues, Property Management Unit staff are taking an active part in inter-departmental energy and environment groups in 1997-98. We expect to build on this progress in 1998-99.

5.14 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 addition, there is a Statistics Advisory Committee to advise the Director on the statistical work of the Office, on annual corporate targets, and on his responsibilities as head of the Government Statistical Service. Nineteen members have been appointed with the agreement of the Chancellor of the Exchequer. They are drawn from ONS customers, data suppliers and others with appropriate knowledge acting in a personal capacity.

5.15 Bibliography

Details and information on ONS's business aims and objectives can be found in the Agency's Framework Document, Business 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.

6. Government Actuary's Departments

6.1 Responsibililites, Aims and Objectives

The Government Actuary's Department (GAD) is a separate government department which provides an actuarial consultancy service to government departments and to certain public sector bodies. It advises, in the main, 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 funds.

6.1.1 Aims

GAD's aim is to provide independent, professional, actuarial advice of the highest quality to clients in the public sector at a reasonable cost.

6.1.2 Objective

GAD's objective is to provide actuarial advice to government, meeting the need for an independent source of advice, free of commercial pressures; confidentiality on sensitive political and commercial issues; consistency of advice, e.g. across the public service pension schemes; and value for money in terms of fees.

In fulfilling this objective GAD will:

1. offer high quality customer-oriented service to clients at all times
2. maintain the highest standards of professionalism and relevance when advising clients on actuarial matters
3. provide clients with value for money in the provision of actuarial advice
4. maintain a well- trained and well-motivated staff with up-to-date skills and expertise.

6.1.3 Priorities

The key priorities of the department are to perform the statutory duties of the Government Actuary and, to the extent that it falls within the competence of the actuarial profession, to provide appropriate and timely advice to Ministers, to their departments and to public sector bodies on

- the current and future costs and financing of social security benefits
- the financial status of insurance companies, friendly societies and Lloyd's

- the design, scope and financing of occupational pensions within the public sector
- the regulation, supervision and taxation of occupational and personal pensions
- protection of the interests of taxpayers with regard to the pensions aspects of privatisation and contracting-out of services to the private sector
- population projections of the UK and its constituent countries
- other matters where actuarial advice is required

Whilst consultancy services to UK clients constitute the major part of GAD's activity, its specialist expertise continues to be made available internationally, particularly in insurance supervision, social security reviews, pension reform projects and the organisation of actuarial training.

The activities of GAD are currently being reviewed, as part of the Government's overall Comprehensive Spending Review. Under the aim set out in paragraph 6.1.1, the objectives being considered for 1998 are:

- to provide the actuarial advice required by public sector employers in respect of pensions and other employee benefits;
- to provide the social security projections, demographic analyses and acturial advice necessary to underpin Ministerial decision making in social security and pensions policy;
- to provide the actuarial advice necessary for the regulation of financial institutions

In doing this we will operate efficiently and effectively to provide independent, consistent, policy orientated and value for money advice.

6.2 Achievements

6.2.1 Pensions

The coming into force of the Pensions Act 1995 in April 1997 called for widespread actuarial support, the most challenging being the connection with the minimum funding requirement. The new framework requires Scheme Actuaries to be appointed by the trustees. Eight actuaries at GAD now hold a certificate to carry out this very demanding role.

The Occupational Pensions Regulatory Authority (OPRA) - to which the Scheme Actuaries report - appointed GAD to advise it during its start-up preparations and a follow-through period.

As usual, the Department was called upon throughout the year to advise individual, funded and unfunded pension schemes in the public sector, each with its own set of unique demands. GAD was also fully involved in advising Government bodies on how best to fulfil the intention to implement, by April 2000, pension-sharing between divorcees.

The impact of privatisation still required attention from GAD, as did the consequences of contracting-out and market testing, with the attendant transfer of staff and their pensions. The latter work was carried out to very tight deadlines.

The Government also required GAD to advise on a comprehensive range of other issues, such as compensation cases connected with injury at work and unfair or wrongful dismissal.

In a wider context, reports were prepared on draft proposals under development by the European Commission to safeguard cross-border pension rights. The Department continued to advise on pension scheme matters outside the UK, most notably in Russia at one extreme and in Mauritius at the other.

6.2.2 Social Security and Demography

In November 1997 the Department published the official population projections for the UK as at 30 June 1996. It was also responsible, amongst other things, for projecting income and expenditure by the National Insurance Fund. As in previous years, it carried out regular reviews and provided advice to social security schemes outside the UK, in countries ranging from Saudi Arabia to Barbados.

6.2.3 Financial Institutions

On behalf of the DTI and in the interests of policy and shareholders, GAD monitors and examines the performance of the life insurance companies and provides advice in connection with applications to set up new ones; it also monitors the financial position of Lloyds for the DTI. This work continued throughout the year, accompanied by regular visits to company headquarters. Intensive, high level meetings and much detailed work were required to deal with Lloyds' complex liabilities and the planned functioning of Equitas, the Lloyds' reinsurance vehicle specifically intended to take over syndicate liabilities from 1992 and before. The Department also continued to give advice to the building and friendly society supervisory bodies as well as to the Securities and Investments Board.

Internationally, GAD maintained its advice to the DTI on a number of European Union regulatory and standards issues. It was also called on by the authorities in various countries outside the Union, including Russia and Egypt, to provide advice on improvements to the regulatory environment. A year's contract with the Hong Kong authorities concerning regulation was extended to a second year, while training was provided for visitors from insurance supervisory authorities abroad and on location in Slovakia and Slovenia.

6.3 Progress to date and Plans for 1998-99

From 1989 GAD has operated a system of full repayment for advice given to other government departments and to non-Exchequer bodies, and nearly all of its running costs are met by receipts. A small section of work, dealing with population projections and surveys of occupational pension schemes, which is of interest to a wide spectrum of users, remains centrally funded. The cost of this "core" work remains fairly constant, currently representing about 8% of total workload.

In a department such as ours, entirely based on providing services in response to day-to-day client demands, our workload is effectively determined by our clients. The income received by us in any one year, therefore, is vulnerable to either, or both, of (a) a downturn in the services required by clients, and (b) late payment of invoices. With staff as our only resource, and with constraints imposed on the hiring and firing of staff, it is not always possible to react instantly to changes in workflow.

During 1996-97, due to a combination of (a) and (b) detailed in the previous paragraph, GAD did not receive sufficient receipts within the year to cover its running costs expenditure, causing a breach in net running costs of £120,000. A saving of £149,000 was realised on capital expenditure, but since the department has been, since 1995-96, operating under a net running costs regime, this saving could not be used to offset the breach. A further technical breach of £89,000 was incurred when NAO noticed that the department was including in its receipts VAT reclaim, which was not itemised as allowable income on the face of the Estimates.

GAD has increased its charges, and will tighten its credit controls and increase the frequency of income monitoring in future to try to ensure that all relevant bills are paid on time. In addition, possible ways of alleviating the difficulties caused by annuality are being explored with Treasury, within the context of Government Accounting. VAT reclaim will be added to the face of the Estimates immediately.

6.4 Efficiency Measures and Value for Money

Work on the department's new Management Information System (MIS) was halted during the year, after it was recognised that requirements had changed and expanded following the delegation of tasks from the Centre. It was felt that it would be beneficial to review the market again for alternative technologies. Work was carried out in the identification of financial and management accounting processes within the department, and a review of various technical products was set in hand. It is intended that a new system will be identified and set in place during 1997-98, ready to go live on 1 April 1998.

By employing staff effectively while keeping a tight control over other expenditure, GAD endeavours to ensure that income from charges to clients is just sufficient to cover all costs incurred, including overheads, and that the charges themselves are kept as low as is consistent with producing the most cost effective and high quality advice possible.

Hourly rates of charge had been kept constant for three years, but for 1997-98 they were increased by 6%, roughly equivalent to inflation throughout the previous three years. They still remain extremely competitive, considerably lower than those of outside competitors.

6.5 Performance Indicators

Until the new management information system is in place to produce more detailed means of measuring efficiency, the department continues to use a series of simple indicators to give an overall picture of performance.

6.5.1 Proportion of Time Chargeable

One measure which is closely monitored is the proportion of time worked by staff, including support staff, in divisions dealing with client references, on chargeable (as opposed to non-chargeable) work. Obviously, this must be maintained at a high level if the Department is to be efficient, but we must not lose sight of the importance of some non-chargeable time, which includes time spent on essential activities such as management, training, systems development and research.

The following table shows the outturn for 1996-97, with the outturn for 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 as well as on work for government departments and other clients.

Chargeable Hours as Proportion of Time Worked

	1996-97	1995-96
Managing Actuaries	.78	.82
Other Actuaries	.87	.88
Actuarial Trainees	.66	.72
Support Staff	.73	.74
All	.78	.81

The figures in the above table show that, as expected, the advent of greater delegation of management tasks from the Centre, together with the increasing demands for ever tighter controls on spending, are affecting the previous high levels. However, we have achieved our aim of maintaining the overall percentage at 78, which is still extremely high, especially when compared with commercial companies.

6.5.2 Loading for Overheads

GAD's rates are based on an hourly salary charge for each grade, loaded by an amount to cover the department's overheads, including the cost of accommodation and other general administrative expenditure, support staff not attached to divisions, and non-chargeable time.

Loading in 1996-97 was 91% of the basic salary charge, a decrease of 3% on the loading for the previous year. However, for 1997-98, a small increase in numbers of support staff in the sections dealing with finance and information technology has increased our overheads, while it has not been possible to recruit fee earning staff quickly enough even though the demand for work is there, and so we have not been able to increase the base over which to spread the overheads. Thus, the loading for 1997-98 has increased to 95%. If the present up-turn in work is consolidated, and we are able to increase our fee earning staff, we should begin to see a corresponding decrease in our loading for overheads.

6.5.3 Average Hourly Rates

A significant indicator is the average hourly rate charged, determined by the levels of salaries, the distribution of hours by grade, and the loading for overheads.

The average hourly rate charged for 1996-97 was £72.17, 1.2% lower than that for 1995-96. This was a direct result of all staff, but especially senior staff, spending more time on non-chargeable work during the year.

When the increase in non-chargeable work has stabilised, we should return to the more usual pattern of slight increases each year, reflecting overall increases in salary levels.

6.5.4 Demonstration of Efficiency Savings

The foregoing indicators monitor important aspects of the operation of the Department and provide essential information for management. However, in order to demonstrate continuing improvement in efficiency in the longer term, it would be desirable to develop some output measures, or measures which could serve in an approximate way as an indicator of output. It is hoped that the long awaited management information system will help facilitate the development of such measures. Work is continuing on researching how best to structure the new system to produce, without too much manual intervention, a comparison of costs, in real terms, and the number of hours of staff time at various levels, for regular jobs such as population projections or the triennial valuations of particular pension schemes. The new system should also make it easier to compare completion times with estimates, and actual costs with budgeted costs, for all significant projects undertaken by GAD.

The department has examined the options for market testing and contracting-out very carefully, but no scope has been found to take these any further. Its main actuarial services are subject to competitive market testing, and the majority of specialist services such as internal audit, CIR, professional grades recruitment, training, printing and design of publications, IT management consultancy, payroll etc., together with some actuarial work, are contracted out.

6.6 Running Costs, Staffing and Capital

Expenditure by GAD in 1998-99 will fall on Class XVI, Vote 12. Gross running costs are expected to be in the region of £6.7m, of which £6.3m will be recovered in fees.

This pattern is expected to continue throughout the PES period, with any increase in running costs offset by a corresponding increase in receipts.

Voted expenditure, to cover "core" costs and capital, is expected to remain constant at £0.6m over the next three years and beyond.

6.6.1 Appropriations in -Aid

Income used as appropriations-in-aid is engendered by charging for the provision of actuarial advice. The main source of income, 78% of receipts in 1996-97, is derived from advice given to other government departments, with the remaining 22% coming from advice supplied to the wider public sector and overseas clients.

The department's aim is to set its charges at a level only sufficient to recover its costs year-on-year. Calculated on a memorandum trading account basis, the department's income just equalled its expenditure in 1996-97. However, due to the annuality inherent in cash accounting, a breach in net running costs of £120k occurred, caused by a deficit in receipts to the end of March.

6.6.2 Manpower

With demand from clients beginning to pick up again, staff numbers are expected to increase from 88 in 1996-97 to 92 by 1998-99. It is planned that most of the extra recruitment will be trainees replacing present trainees who will qualify in the next two years, thus adding good quality qualified staff at a reasonable extra cost. Inevitably. this will lead to increased running costs, but with strict control of non-pay-related running costs, hourly rates should increase only very slowly, allowing receipts to rise while costs to customers remain relatively stable.

6.6.3 Senior Civil Servants

Although senior actuarial staff are not a part of the Senior Civil Service (SCS), and 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 eleven such staff, whose salaries in 1997-98 fall into bands as shown in Table ( ) below.

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

6.6.4 Capital

GAD has minimal capital assets. Its holdings consist mainly of furniture, office machinery, and low cost IT. Expenditure on capital is expected to remain constant at a rate of £0.2m per year for the foreseeable future, just enough to continue a rolling programme of upgrading and replacement of PCs and furniture, and to install and maintain any hardware accompanying the new MIS system. A review of capital asset register systems established the fact that GAD's minimal assets did not merit the cost of purchasing a complete bespoke system, and a simple register is being compiled using tools already in existence in the department.

No opportunities for the use of PFI have yet been identified but PFI will be considered for future projects.

BREAKDOWN OF FORECAST OUTTURN FOR 1997-98

	Running	Other	Capital	Current	Capital	Gross	Appropns	Net
	6.6	-	0.2	-	-	6.8	6.2	0.6

6.7 Prompt Payment of Bills

GAD complies with the CBI prompt payment code. The department's policy is to pay 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 such conditions exist.

The majority of bills received by GAD are paid within ten days of receipt. All bills are settled by their due date, subject to there being no queries as to their validity.

6.8 Recruitment and Equal Opportunities

GAD is a very small department employing a majority of professional actuaries. All professional recruitment is carried out on the basis of fair and open competition, undertaken at our request by the Recruitment and Assessment Services (RAS), whilst the majority of non-actuarial posts are filled by a combination of internal promotion and inter-departmental trawl. 50% of the senior non-actuarial posts are filled by women.

6.9 Citizen's Charter

Although GAD does not provide any services direct to members of the public, it is actively seeking to enhance its services to its customers, as shown in its objectives.

6.10 Environmental Policies

GAD endeavours to be environment friendly as far as is possible, and conforms with the energy guidelines set out by the Department of the Environment.

6.11 Location

GAD is located in London. Thus, all its expenditure is allocated in the South East Economic Planning Region.

6.12 Bibliography

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

Annual Report 1996-97

Corporate Brochure 1997

Chapter 7: Net Payments to European Community Institutions

7.1 Introduction

The United Kingdom's contributions to the European Community(EC) derive from its Treaty obligations with the Community. For example, the size of the UK's gross contribution stems directly from the provisions of the Own resources Decision. This decision determines the basis of member states contributions to fund the annual Community budget and enshrines the UK's abatement. Consequently, our international obligations mean that these contributions cannot be subject to the same examination of priorities currently being undertaken by the Government for other Public Expenditure programmes.

Notwithstanding this, the UK Government will press for restraint in the level of Community spending, not just because we are a net contributor but also because it is necessary to ensure that Community spending delivers value for money and that the UK taxpayer should be asked to contribute no more than is necessary to the costs of the Community. The UK exercises its pressure on Community expenditure through the annual EC budget round (where its goal is to get low overall increases in the size of the Community budget, year on year, commensurate with the Community's needs) and the negotiation of the Financial Perspective (which sets a multi annual framework for the Community budget) under the Inter-Institutional Agreement between the Council, the Commission and the European Parliament. The exercise of strict budget discipline is a major goal for the UK.

This approach to the Community is fully compatible with the Government's stated priorities under the Comprehensive Spending Review, ie to ensure that spending which the Government funds is both well targeted and held to the minimum which is necessary.

7.2 Basis of Programme 27

The United Kingdom's net payments to EC Institutions include its net contributions to the EC budget (less the UK's share of Community expenditure on overseas aid, which is included within the aid programme, and a small amount attributed to FCO in respect of the Community's Common Foreign Security Policy), its contribution to the capital of the European Investment Bank (EIB) and receipts from the European Coal and Steel Community (ECSC). Net payments figures include the UK's abatement (see section 8.7). The abatement significantly reduces the UK's contributions to the Community.

The estimate of the UK's net payments to EC Institutions for 1997-98 is £1,783 million. This compares to the outturn figure for 1996-97 of £1,717 million, a difference of plus £66 million (equating to a 3.8 per cent change) and the previous "trend" estimate (see section 8.3) for 1997-98 of £2,247 million, a difference of minus £464 million (a change of 20.6 per cent). The "trend" in our net payments in 1998-99 is now forecast to be £2,442 million, which compares with £2,392 million, a difference of £50 million (a change of 2.1 per cent) from the previous forecast for 1998-99.

7.3 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.

Whereas the Treasury attempted to predict these fluctuations prior to its 1996 Budget forecast, experience dictated that a change to a different methodology would likely lead to benefits for the public expenditure planning process. It was decided, therefore, that from 1996 the Treasury would no longer prepare spot forecasts of the UK's actual annual net contributions, but that forecasts in respect of future years' net contributions to the EC budget would be compiled on a "trend" basis.

7.4 Estimates of Current Financial Years

At the same time, it was recognised that there would still be value in producing the best available estimate of the UK's net payments for current financial years, since substantially better information is available for the current financial year than for future years.

Estimates of the current financial year nevertheless 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.

7.5 Presentation of Data

Accordingly, the forecast for 1997-98 in **Table 8A** represents the Government's latest view of the likely outturn for that year, whereas the forecast for 1998-99 represents the likely trend of our contributions to the Community for that year.

TABLE 8A: OTTURN (£ MILLION)

	1992-93 **Outturn**	1993-94 **Outturn**	1994-95 **Outturn**	1995-96 **Outturn**	1996-97 **Outturn**	1997-98 **Estimated Outturn**	1998-99 **Trended plans (3), (4)**
Gross payments	6,970	8,407	6,892	9,211	9,278	8,523	
Public sector receipts	- 2,810	- 3,865	- 3,603	- 3,783	- 4,567	- 4,636	
UK Abatement	- 1,993	- 2,350	- 1,648	- 1,576	- 2,418	- 1,582	
Net contributions to EC Budget	2,168	2,192	1,641	3,852	2,293	2,305	3,025
Contributions to reserves and capital of the EIB	22	23	15	16	15	-	-
Grants received from European Coal and Steel Community	- 47	- 13	- 42	- 51	- 27	- 10	- 1
Payments to EC budget attribtued to the aid programme (1)	- 231	- 325	- 346	- 446	- 565	- 512	- 582
Net payments to EC institutions (excluding Overseas Aid)	1,912	1,877	1,268	3,370	1,717	1,783	2,442

Notes:
1. 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.
2. Due to rounding, totals may not exatly correspond to the sum of individual items.
3. An exchange rate of 1.45 ecu to the pound is assumed for 1998-99.
4. The cash plans for 1998-99 have been calculated on a trended basis. Details of this change to the forecasting method were given in the 1997 Departmental Report.

7.6 Comparison with the last Departmental Report

1997-98

The latest forecast for 1997-98(£1,783 million) is £464 million lower than the previous forecast for that financial year (£2,247 million). The saving reflects the difference between the forecast of the trend in the UK's net payments to EC Institutions and the actual net payments which the Government now expects to make for 1997-98, which is based on more recent information relating to the positions for the 1997 and 1998 EC budgets.

1998-99

The latest forecast of the trend in our net payments for 1998-99 is £50 million higher than the previous forecast (£2,392). This change reflects the result of the usual, annual, complete reassessment of the position for the UK net payments in the light of the latest outturn and prospects for the EC budget; including reassessing underlying economic factors. The relatively modest change in the amount for the trend in 1998-99 results from significant underlying changes in respect of our gross contributions, receipts and abatement which, overall, are all expected to be lower in the future than was previously forecast. The net result of the reassessment is that there is a small increase in the amount for the "trend".

7.7 Gross Contributions

Contributions by member states to the EC budget ("own resources") consist of four elements:

- **Agriculture and sugar levies.** The former have been replaced by duties on agricultural products and are charged on a range of commodities imported from third countries. Following the agreement on agriculture during the GATT Uruguay Round, most agriculture levies are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices. Sugar levies 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;
- **Customs duties.** These are paid on imports from non-member countries;
- **Contributions based on VAT.** Essentially, this is the amount yielded by applying a notional rate of VAT to an identical range of goods and services in each member state. Member states' are, however, subject to a cap on the VAT contribution as a share of 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 the GNP of a member state is growing relatively fast compared to others, it will see a relative increase in contributions.

Member states' total contributions may not exceed the overall annual ceiling on own resources established by the Own Resources Decision. Under the new Decision, adopted in accordance with the agreement at the Edinburgh European Council and now ratified by member states, this ceiling is currently 1.26 per cent in 1998 and is to be increased to 1.27 per cent of Community GNP in 1999 and beyond. The new Decision will also gradually increase the proportion of the GNP- based resource and reduce 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 will be reduced, also in stages, with an immediate reduction for the four poorest member states.

In recent years the VAT element has been the largest source of revenue for the Community. For example it accounted for some 44 per cent of the UK's gross contribution, before abatement, in the 1997 EC Supplementary and Amending budget. However, fourth resource contributions are now expected to form the largest single element of the UK's Own Resources contributions from 1999 onwards. The UK's share of total own resources in the 1998 adopted budget is around 17 per cent before abatement and around 14 per cent after abatement.

7.8 Gross Receipts

The UK public sector share of receipts from the EC budget is expected to be around 8.5 per cent in 1998. 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 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.

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 8A**, line 2. **Table 8B** summarises UK public sector receipts, while Chart 8A illustrates the relative amounts, by budget category, which the UK public sector gets from the Community.

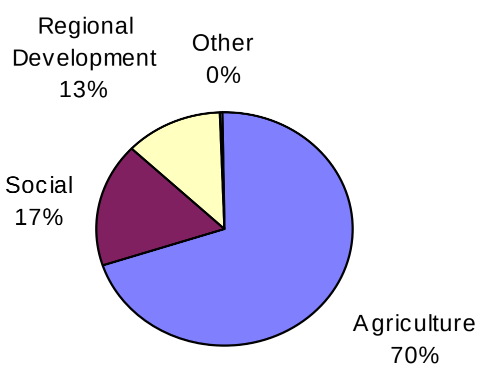
TABLE 8B: PUBLIC SECTOR RECEIPTS (OTHER THAN UK ABATEMENT) FROM THE COMMUNITY BUDGET (£ MILLION)

	1992-93 Outturn	**1993-94 Outturn**	**1994-95 Outturn**	**1995-96 Outturn**	**1996-97 Outturn**	**1997-98 Estimated outturn**
Agricultural Guidance and Guarantee Fund	1,603	2,906	2,477	2,639	3,186	2,934
Social Fund	685	355	496	709	785	1,007
Regional Development Fund	501	582	607	404	577	643
Other Receipts	21	22	22	32	19	53
Total	**2,810**	**3,865**	**3,603**	**3,783**	**4,567**	**4,636**

1. Due to rounding, totals may not exactly correspond to the sum of individual items.

A detailed analysis by department and Community fund is set out in **Table 8C**.

Chart 8A: Distribution of UK receipts in 1996-97



7.9 UK Abatement

Under the Own Resources Decision, the Commission is directly responsible for determining the UK's abatement. The method of calculation is set down explicitly 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. 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 5 per cent of total EC budget expenditure in 1998, 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 in arrears, after which a final reckoning is made.

The UK's abatement in the 1997 EC Supplementary and Amending budget and the 1998 EC budget are £1,733 million (2,351 mecu) and £1,378 million (2,066 mecu), respectively. The difference between the amounts for 1997 and 1998 is a result of factors such as the movements and changes in the UK's gross contributions and receipts described at the beginning of this chapter, exchange rate movement etc. The underlying level of the abatement is now around £2 billion a year. By the end of 1997-98, the total abatement made since the Fontainebleau agreement in 1984 is expected to be around £22 billion.

7.10 Relative Position of the Member States

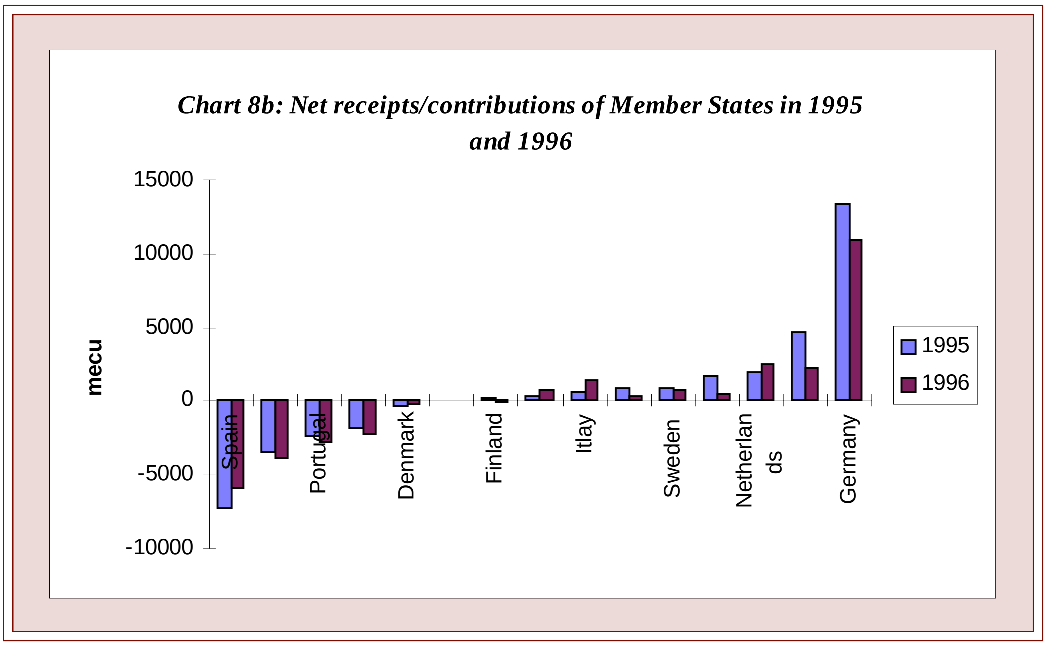
In 1996 the UK was one of 9 member states which figures in the European Court of Auditors (ECA) Report indicate were net contributors to the EC budget. Germany was the largest net contributor, paying around four times as much as any other member state, followed by the Netherlands and the UK. Other significant net contributors in 1996 were Italy, Sweden, Belgium and France.

Chart 8B sets out both the net beneficiaries and the net contributors to the EC budget for 1995 and 1996, the last two years for which information is available. The variation in the positions for the member states reflects not just the consequences of the underspending for the two years but also the effect of fluctuations caused by the workings of the EC budget financing system, and thus demonstrates that these fluctuations affect all member states.

The EC budget is denominated in European Currency Units (ECU) and the ECA figures are prepared on an ECU basis. Chart 8B is 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 1995 and 1996 do not readily convert to sterling equivalents using a single exchange rate.

Some major differences which can be identified for the UK from the ECA figures for the two years are as follows:

- the UK paid some 483 mecu to the European Community in 1995 to correct for underpayments made in earlier years (principally 1994), whereas in 1996 the correction paid in respect of earlier years was just 26 mecu.
- the abatement paid to the UK in 1995 (1,468 mecu) was substantially lower than the abatement paid in 1996 (2,945 mecu).
- the UK's contributions to the third and fourth resources (VAT and GNP-based contributions) were, in total, some 888 mecu higher in 1996 than in 1995. This is in part due to the UK contributing to a significantly larger budget in 1996 than it did in 1995.
- the level of the UK receipts identified in the 1995 Court of Auditors report amounted to some 4,531 mecu, whereas in 1996 the level of our receipts is shown as some 5,951 mecu.



7.11 BIBLIOGRAPHY

Further information about European Community finances can be found in:

Statement on the 1997 EC Budget and measures to counter fraud and financial mismanagement, **HMSO, Cm 3700;**

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 8C: RECEIPTS FROM EUROPEAN COMMUNITY INSTITUTIONS ANALYSED BY DEPARTMENT AND FUND

£ million	**1992-93 Outturn**	**1993-94 Outturn**	**1994-95 Outturn**	**1995-96 Outturn**	**1996-97 Estimated Outturn**	**1997-98 Plans**	**1998-99 Plans**
Min. of Agriculture, Fisheries & Food							
EAGGF #1 (Guarantee)	0	0	1	1	:	1	1
EAGGF(Guidance)	20	18	16	15	13	18	15
ERDF #2	0	0	:	:	:	2	1
FIFG #3	1	:	7	6	10	8	2
Other receipts	1	1	:	:	:	1	1
Forestry Commission							
EAGGF (Guidance)	2	6	0	0	0	:	:
	0	0	0	0	:	0	0
Intervention Board							
EAGGF (Guarantee)							
EAGGF (Guidance)	1,525	2,806	2,411	2,610	3,136	2,842	2,942
50% Set Aside	:	0	0	0	0	0	0
Depreciation of existing stocks	0	0	0	0	0	0	0
Ministry of Defence							
ERDF	0	1	:	0	0	0	0
Other receipts	:	:	:	1	0	0	5
Department of the Environment, Transport and Regions							
EAGGF (Guidance)	0	0	0	1	0	1	1
ERDF	330	216	275	203	159	196	235
Other	4	4	12	9	2	36	28
Department of Health							
Other Receipts	0	0	:	0	0	0	0
Home Office							
Other Receipts	0	0	:	:	0	:	0
DFEE							
ERDF	0	14	15	13	18	56	27
ESF #4	437	485	375	428	529	765	538
Office of Fair Trading							
ESF	:	:	:	:	:	:	:
Office of National Statistics							
ESF	:	:	:	:	0	0	0
Other Receipts	0	0	0	1	1	1	1
Department for Culture, Media and Sport							
ERDF	0	0	0	6	23	34	31

TABLE 8C: RECEIPTS FROM EUROPEAN COMMUNITY INSTITUTIONS ANALYSED BY DEPARTMENT AND FUND (CONT)

£ million	1992-93 Outturn	1993-94 Outturn	1994-95 Outturn	1995-96 Outturn	1996-97 Estimated Outturn	1997-98 Plans	1998-99 Plans
Department of Trade & Industry							
ERDF	16	28	35	46	80	109	110
ESF	0	0	0	0	0	0	0
Other Receipts	5	4	4	1	:	:	:
Scottish Office							
EAGGF (Guidance) (incl. FIFG)	16	21	18	17	16	19	18
ERDF	84	107	80	84	86	96	116
ESF	25	25	34	37	66	64	96
Other Receipts	:	:	:	:	1	1	2
Welsh Office							
EAGGF (Guidance)	9	9	7	8	8	9	9
ERDF	44	50	53	39	20	55	55
ESF	0	13	10	14	5	16	13
FIFG	0	0	0	0	0	:	:
Other Receipts	:	:	:	:	0	0	0
Northern Ireland Office							
EAGGF (Guidance)	20	27	27	24	32	35	34
ERDF	96	123	58	83	199	94	144
ESF	42	35	71	12	81	162	88
FIFG	0	0	1	:	1	2	3
Other Receipts	:	:	:	:	:	:	:
Office of Science and Technology							
Other Receipts	7	12	16	13	12	14	11
Total Receipts from European Community Budget	2,685	4,007	3,527	3,673	4,499	4,636	4,528
Receipts from ECSC							
Department of the Environment	:	:	:	:	0	0	0
Department of Trade & Industry	47	13	42	51	27	10	:
Total Receipts from European Community Institutions	2,732	4,020	3,569	3,725	4,526	4,647	4,529

: Signifies existance 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 for the years 1992-93 to 1996-97 may be different from the totals shown in Table 8A.

ANNEX A: TABLES

TABLE 8.1 CASH PLANS £ million

	1992-93 outturn	1993-94 outturn	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
HM Treasury							
Central government's own expenditure							
Voted in Estimates							
Central Treasury Administration	57	59	58	56	49	52	43
Debt Management Office							
Parliament and Privy Council	2	2	2	2	2	2	2
Other services	7	1	1	1	3	3	3
Advisers fees in connection with the privatisation of certain Paymaster activities					#	#	
UK coinage	33	20	22	21	26	36	25
Forward (Civil Service Catering)	#	1					
Repayments to the contingency fund	#	1	#	#	#	#	
The Diana Princess of Wales Memorial Fund						3	
Total voted in Estimates	105	89	88	85	86	102	82
Other (non-voted)							
Parilament and Privy Council	14	15	14	14	14	14	14
UK coinage	-6						
Parliamentary election expenses	#						
Bank of England services	85	87	86	84	81	75	68
Repayments to the contingency fund							#
Total other (non-voted)	93	101	100	98	95	89	82
Total HM Treasury	**198**	**190**	**188**	**183**	**181**	**191**	**164**
Customs and Excise							
Central government's own expenditure							
Voted in Estimates							
Administration	879	863	871	859	841	856	836
Total Customs and Excise	**879**	**863**	**871**	**859**	**841**	**856**	**836**
Inland Revenue							
Central government's own expenditure							
Voted in Estimates							
Administration	1,654	1,661	1,581	1,647	1,634	1,675	1,633
Payments in lieu of tax relief	433	393	314	242	204	204	162
Contributions in lieu of rates on Government property	50	10	93	63	42	55	40
Votes in Estimates							
Valuation Office						#	#
Total voted in Estimates	2,137	2,064	1,988	1,952	1,880	1,934	1,835
Other (non-voted)							
Administration	-60				-1		
Valuation Office	-11	-4	-8	-3	-6	-9	-7
Contributions in lieu of rates on Government property		-11					
Total other (non-voted)	-72	-14	-8	-3	-7	-9	-7
Total Inland Revenue	**2,065**	**2,050**	**1,980**	**1,949**	**1,873**	**1,925**	**1,828**

TABLE 8.1 CASH PLANS (CONT)

£ million

	1992-93 outturn	1993-94 outturn	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
Agency agreement for the carrying out of insurance sponsorship and supervision responsibilities	5	5	5	5	5	5	5
National Savings							
Cental government's own expenditure							
Voted in Estimates							
Administration	210	199	197	194	179	178	173
Total National Savings	**210**	**199**	**197**	**194**	**179**	**178**	**173**
Registry of Friendly Societies							
Central government's own expenditure							
Votes in Estimates							
Administration	4	3	3	3	7	5	2
Other (non-voted)(1)	#	#	#	#	-2		
Total Registry of Friendly Societies	**3**	**3**	**3**	**2**	**6**	**5**	**2**
National Investment and Loans Office							
Central government's own expenditure							
Voted in Estimates							
Administration	#	#	#	1	#	1	#
Other (non-voted)							
Administration	-1	-1	-1	-1	-1		#
Total National Investment and Loans Office	**-1**	**#**	**-1**	**-1**	**-1**	**1**	**#**
Office of HM Paymaster General							
Central government's own expenditure							
Voted in Estimates							
Administration	26	#	#	1	2		
Other		-2	-2	-2	-2		
Total Office of HM Paymaster General	**26**	**-2**	**-2**	**-1**	**1**		
Office of National Statistics							
Central government's own expenditure							
Voted in Estimates							
Administration	98	90	93	103	108	98	97
Customer funded	#	#	#	#	3	#	#
Total Office for National Statistics	**97**	**90**	**93**	**102**	**110**	**98**	**97**
Government Actuary's Department							
Central government's own expenditure							
Voted in Estimates							
Administration	1	1	1	1	#	#	1
Other (non-voted)		#	-1	#	#		
Total Government Actuary's Department	**1**	**#**	**#**	**#**	**#**	**#**	**1**
Royal Mint							
Total Chancellor of the Exchequer's Departments	**3,478**	**3,393**	**3,329**	**3,288**	**3,190**	**3,254**	**3,100**

(#) Cash amounts below £0.5 million are not shown

TABLE 8.2 RUNNING COSTS

£ million

	1992-93 outturn	1993-94 outturn	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
HM Treasury							
Gross running costs:(1)							
Paybill	57	58	42	38	35	38	
Other	39	39	25	25	23	24	
Total Running Costs	96	97	67	63	58	62	61
Related receipts	-42	-40	-11	-11	-10	-10	-11
Net expenditure	54	56	56	52	48	52	51
Gross Running Costs Limit							60
Running costs by control area:							
Net control area:							
Forward (Civil Service Catering(4)							
Gross expenditure	33	30					
Net expenditure	#	1					
Customs and Excise(2)							
Gross running costs:(1)							
Paybill	539	544	552	546	551	563	
Other	200	192	194	201	184	199	
Total Running Costs	739	736	746	747	735	761	756
Related receipts	-6	-4	-4	-5	-7	-7	-8
Net expenditure	732	732	741	742	728	754	748
Gross Running Costs Limit							756
Inland Revenue(2)							
Gross running costs:(1)							
Paybill	1,263	1,288	1,260	1,192	1,165	1,174	
Other	503	535	555	641	671	700	
Total Running Costs	1,766	1,823	1,816	1,833	1,836	1,874	1,883
Related receipts	-248	-325	-319	-290	-295	-288	-279
Net expenditure	1,519	1,498	1,497	1,543	1,541	1,586	1,604
Gross Running Costs Limit							1,726
Running costs by control area:							
Net control area:							
Valuation Office(2)							
Gross expenditure	166	182	182	169	152	154	150
Net expenditure	5	5	3	2	-7	-4	

TABLE 8.2 RUNNING COSTS (CONT)

£ million

	1992-93 outturn	1993-94 outturn	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
Department for National Savings							
Gross running costs:(1)							
Paybill	92	89	90	85	79	79	
Other	106	106	104	106	99	98	
Total Running Costs	198	195	194	190	178	177	172
Related receipts	-1	-1	-1	-2	-2	-2	-1
Net expenditure	197	194	193	188	176	175	171
Gross Running Costs Limit							172
Registry of Friendly Societies							
Gross running costs:(1)							
Paybill	5	5	5	5	5	5	
Other	3	3	3	3	2	2	
Total Running Costs	8	8	8	8	8	7	7
Related receipts	-4	-5	-5	-5	-5	-4	-6
Net expenditure	3	3	3	3	2	3	1
Gross Running Costs Limit							7
National Investment Loans Office							
Gross running costs:(1)							
Paybill	1	1	1	1	1	1	
Other	#	#	#	#	#	#	#
Total Running Costs	2	2	2	1	1	2	2
Related receipts	-1	-1	-1	-1	-1	-2	-1
Net expenditure	#	#	#	#	#	#	#
Gross Running Costs Limit							1
Paymaster(2)							
Gross running costs:(4)							
Paybill	14	15	15	12	13		
Other	11	12	13	14	13		
Total Running Costs	25	27	28	27	25		
Related receipts	-2	-28	-30	-28	-26		
Net expenditure	36	39	41	41	38		

TABLE 8.2 RUNNING COSTS (CONT)

£ million

	1992-93 outturn	1993-94 outturn	1994-95 outturn	1995-96 outturn	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
Running costs by control area:							
Net control area:							
Paymaster Agency							
Gross expenditure	25	27	28	27	25		
Net expenditure	23	-1	-2	-1	#		
Office for National Statistics[2]							
Gross running costs:[1]							
Paybill	70	67	73	74	66	74	
Other	57	56	55	58	49	48	
Total Running Costs	127	124	128	133	115	122	122
Related receipts	-34	-40	-39	-41	-29	-30	-30
Net expenditure	93	84	89	92	86	92	92
Gross Running Costs Limit							103
Running costs by control area:							
Customer Funded Services							
Gross expenditure	25	27	27	26	17	17	18
Net expenditure	1	#	#	#	2	-1	#
Government Actuary's Department[3]							
Gross running costs:[1]							
Paybill	3	3	4	4	4	5	
Other	2	2	2	2	2	2	
Total Running Costs	5	5	6	6	6	7	7
Related receipts	-5	-5	-5	-6	-5	-6	-6
Net expenditure	#	#	-1	#	#	#	#

(1) *The gross figures are net of any VAT refunds on contracted out services*

(2) *A Next Steps Executive Agency*

(3) *Government Actuary's Department operates under net running costs control*

(4) *Forward was privatised on 14 February 1994*

(5) *Running costs related receipts from within the running costs provision of other government department's are now offset against the gross running costs limit*

(6) *Only the gross running costs limit for 1998/99 is shown as the basis for calculation changes from that year*

TABLE 8.3 STAFF NUMBERS

Staff-years

		1992-93 actual	1993-94 actual	1994-95 actual	1995-96 actual	1996-97 actual	1997-98 estimates outturn	1998-99 plans
HM Treasury	CS FTEs	1,490	1,447	1,333	1,060	903	949	949
(Gross Control area)	Overtime	50	50	47	28	22	22	21
	Casuals	20	11	18	28	29	22	20
	TOTAL	1,560	1,508	1,398	1,116	954	993	990
Forward	CS FTEs	597	442	-	-	-	-	-
(Civil Service Catering)	Overtime	26	7	-	-	-	-	-
	Casuals	6	12					
	TOTAL	629	461	0	0	0	0	0
TOTAL HM TREASURY		2,189	1,969	1,398	1,116	954	993	990
Customs and Excise	CS FTEs	25,759	25,273	24,832	23,536	22,932	23,309	22,775
	Overtime	1,537	1,368	1,300	1,280	1,180	1,124	1,030
	Casuals	403	639	596	615	546	523	470
	TOTAL	27,699	27,280	26,728	25,431	24,658	24,956	24,275
Inland Revenue	CS FTEs	64,220	60.980	56,840	53,303	50,765	49,595	49,900
(Gross Control area)	Overtime	750	650	820	675	776	850	1,400
	Casuals	783	636	800	928	416	503	600
	TOTAL	65,753	62,226	58,460	54,906	51,957	50,948	51,900
Valuation Office	CS FTEs	5,140	4,960	5,190	4,261	4,406	4,214	3,932
(Net Control area)	Overtime	20	70	100	25	27	11	0
	Casuals	772	1.091	810	821	116	46	0
	TOTAL	5,932	6,121	6,100	5,107	4,549	4,271	3,932
TOTAL INLAND REVENUE		71,685	68,387	64,560	60,013	56,506	55,219	55,832
Department for	CS FTEs	6,223	5,915	5,586	5,034	4,545	4,194	4,150
National Savings	Overtime	58	69	61	66	75	88	82
	Casuals	75	173	182	70	53	65	60
	TOTAL	6,356	6,157	5,829	5,170	4,673	4,347	4,292
Registry of	CS FTEs	154	165	175	167	165	159	155
Friendly Societies	Overtime	4	6	5	4	3	3	3
	Casuals	9	6	3	1	1	0	0
	TOTAL	167	177	183	172	169	162	158

TABLE 8.3 STAFF NUMBERS (CONT) Staff-years

		1992-93 actual	1993-94 actual	1994-95 actual	1995-96 actual	1996-97 actual	1997-98 estimates outturn	1998-99 plans
National Investment and Loans Office	CS FTEs	39	38	36	34	33	37	37
	Overtime	0	0	0	0	0	0	0
	Casuals	0	0	0	0	0	0	0
	TOTAL	39	38	36	34	33	37	37
Office of HM Paymaster General	CS FTEs	859	817	721	624	525	0	0
	Overtime	20	30	18	14	11	0	0
	Casuals	13	43	48	42	22	0	0
	TOTAL	892	890	787	680	558	0	0
Office for National Statistics - Admin (Gross Control)	CS FTEs	2,863	2,936	2,736	2,769	2,684	2,606	2,791
	Overtime	44	33	42	41	2	2	2
	Casuals	429	184	232	104	182	93	45
	TOTAL	3,336	3,153	3,010	2,914	2,868	2,701	2,838
Office for National Statistics -	CS FTEs	604	471	550	509	382	399	378
Customer Funded	Overtime	0	0	0	0	14	12	12
Services (Net Control)	Casuals	32	42	23	5	5	28	5
	TOTAL	636	513	573	514	401	439	395
TOTAL ONS		3,972	3,666	3,583	3,428	3,269	3,140	3,233
Government Actuary's Department	CS FTEs	72	77	78	83	78	82	88
	Overtime	0	0	0	0	0	0	0
	Casuals	1	4	3	1	5	4	4
	TOTAL	73	81	81	84	83	86	92
Royal Mint	CS FTEs	1,000	959	959	988	987	972	973
Crown Estate Office	CS FTEs	33	35	27	24	23	-	-

(1) Forward was privatised on 14 February 1994

(2) The Office of HM Paymaster General was privatised on 31 March 1997

TABLE 8.4 RECONCILIATION BETWEEN CASH PLANS TABLE AND ESTIMATES

£ million

	1996-97 outturn	1997-98 estimated outturn	1998-99 plans
PUBLIC EXPENDITURE WITHIN THE CONTROL TOTAL (as in cash plans table)	**3,190**	**3,254**	**3,100**
Less non-voted expenditure within the Control Total	**-83**	**-80**	**-75**
TOTAL VOTED EXPENDITURE WITHIN THE CONTROL TOTAL	**3,107**	**3,174**	**3,025**
VOTED EXPENDITURE NOT INCLUDED IN THE CONTROL TOTAL			
HM Treasury			
Privatisation of Paymaster	#	#	
Privatisation programme: sale of shares	#	#	#
Total HM Treasury	**#**	**#**	**#**
Crown Estate Office			
Administration	2	2	2
Total Crown Estate Office	**2**	**2**	**2**
TOTAL VOTED EXPENDITRUE NOT INLCUDED IN THE CONTROL TOTAL	2	2	2
EC RECEIPTS			
Other receipts - Office for National Statistics	-1	-1	-1
Total EC Receipts	**-1**	**-1**	**-1**
TOTAL VOTED EXPENDITURE	**3,108**	**3,174**	**3.026**

Annex B: Responsibilities of Treasury Ministers

The Chancellor has approved the following allocation of Ministerial responsibilities:

Chief Secretary, Rt Hon Alistair Darling MP

- Public expenditure planning and control (incl LA and NI finance).
- Value for money in the public services.
- Comprehensive Spending Reviews.
- Public sector pay, including parliamentary pay, allowances and superannuation.
- Devolution.
- Export Credit.
- Strategic oversight of the financial system and financial services.
- PX (Public expenditure) and QFL (Forward Legislation) committees.

Financial Secretary, Dawn Primarolo MP

- Oversight of the Inland Revenue, Customs and Excise and Valuation Office Agency.
- Inland Revenue taxes (except Windfall Levy).
- Customs and Excise duties and taxes, including EC aspects.
- Charities, including payroll giving.
- The Environment (inlcuding Energy Efficiency).*
- Parliamentary financial business (PAC, C & AG, Exchequer and Audit Acts).
- Successor to LG Committee.

**Where there is a public expenditure dimension, the FST will be under the general supervision of the Chief Secretary.*

Paymaster General, Geoffrey Robinson MP

- Growth, with responsibility for the growth unit.
- Windfall levy.
- Welfare-to-Work issues.
- Public/Private Partnerships.
- Competition and deregulation policy.
- Treasury interest in small firms.
- Assistance to Chief Secretary on public expenditure planning and control.
- Review of corporate taxation.
- Treasury interest in general accounting issues.

Economic Secretary Helen Liddell MP

- Treasury responsibilities of the financial system and financial services
- Responsibilities for Department of National Savings, National Investment and Loan Office and for the Treasury's interests as shareholder of the Bank of England.
- Foreign exhange reserves management.
- Debt management policy and annual borrowing programme.
- International, including financial and monetary issues, institutions, debt.
- Responsibility for Office of National Statistics, Royal Mint and the Government Actuary's Department.
- Assists Financial Secretary on tax and Finance Bill.
- Briefing on the economy and statistics, including for Parliamentary questions.
- EC Budget, CAP reform and Future Financing.
- EMU preparation (in support of the Chancellor).
- Alternate for EU Presidency.
- Low pay and the minimum wage.
- Devolution (in support of Chief Secretary).
- Women's issues.

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