

# **H M Treasury**

# **Resource Accounts 2002-03**

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# **HM Treasury Resource Accounts 2002 - 03**

**(For the year ended 31 March 2003)**

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## OPERATING AND FINANCIAL REVIEW

### Scope of these accounts

1. The aim and objectives of the Treasury, set in the 2000 Spending Review, are set out in Box 1. New objectives took effect from 1 April 2003.

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

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

**Objectives:**

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

2. Targets have been set relating to each of these objectives in the Treasury's Public Service Agreement and Service Delivery Agreement. Information about performance against those targets is set out in the Treasury's annual Departmental Reports and autumn performance reports.

3. As the UK's finance ministry, H M Treasury is responsible for the finance function of Government as a whole, as well as for its own business as a Department. These accounts relate only to Treasury's own business. They include the resources engaged in managing the Government's overall finances, but not the substantive transactions managed. These are accounted for separately – see note 1.2 to these Accounts.

4. These accounts have been prepared under a direction issued by the Treasury Officer of Accounts in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This Review draws on the Accounting Standards Board's January 2003 Statement on Operating and Financial Reviews to the extent that it is meaningful and appropriate to the public sector context.

5. The Comptroller and Auditor General is the auditor of HM Treasury's accounts.

### Organisational structure

6. The Treasury has three distinct operating units:

- **The core of the Department.** Advice to Ministers on management of the core Treasury comes from a Treasury Management Board which comprises the Permanent Secretary, the six Managing Directors of the core Treasury, the OGC Chief Executive and a non-executive Director.

- **The United Kingdom Debt Management Office (DMO)**, which is the core Treasury's only Executive Agency. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who is supported by the Financial Secretary. The DMO's Chief Executive is an additional Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with its Framework Document.
  - **The Office of Government Commerce (OGC)**. OGC is an independent office of the Treasury with its own Chief Executive (at Permanent Secretary level) and Executive Board. The Chief Secretary is the responsible Minister. These accounts include the Public Dividend Capital and dividend payment of OGC's Executive Agency, OGCbuying.solutions. The Agency is a Trading Fund financed from income from its customers. As such it publishes its own accounts and is not consolidated into these accounts.
7. Each of these business units has its own Audit Committee. Their non-executive members were Chris Swinson and Margaret Exley (core Treasury); James Barclay and Colin Price (DMO) and Colin Thwaite, Brian Glicksman, David Fisher and (to 13 August 2002) Trevor Woolley (OGC).
8. The notes to the Accounts provide analysis of Treasury's expenditure and information in respect of management, staffing, remuneration and pensions. Several of the analyses in the accounts include separate figures for the OGC and HMT (i.e. the core Treasury and the DMO together). Figures for the DMO alone are reported in its separately-published accounts.

### The core Treasury

#### *Activities*

9. The core Treasury's main activities are:
- the provision of advice to Ministers on economic and financial policy, and the acquisition of the information, knowledge and expertise needed to do so effectively;
  - the communication and implementation of that policy – for instance by managing the central finances of Government, preparing legislation, exercising its powers of financial control within Government, procurement of the supply of coinage and influencing economic agents.
10. Much of this work is undertaken in partnership with other bodies. During 2002-03 the Treasury had lead policy responsibility for the Statistics Commission (a non-departmental public body) and the Public Services Productivity Panel (an advisory NDPB). The Treasury also:
- has statutory responsibility for the legislative framework governing the Financial Services Authority's regulation of the financial sector;
  - under the Bank of England Act 1946 is the sole shareholder in the Bank;
  - is the sole holder of public dividend capital in the Royal Mint, a Government Department with Trading Fund status;
  - holds 44.5% of the share capital of Partnerships UK, a public private partnership (PPP) classified to the private sector whose mission is to promote PPPs. 51% of the share capital of Partnerships UK is held by a range of private sector organisations. Scottish Ministers hold the remaining 4.5%;
  - is responsible for the Pool Re arrangements for the reinsurance of risks on commercial property arising from terrorist attacks; and
  - is responsible for Troika, which provided aviation insurance against acts of war or terrorism for events prior to 1 November 2002.
11. For historical reasons the Treasury has some additional functions not related to the business of a finance and economics ministry, including:
- the payment of pensions to former Members of the European Parliament, and salaries of current MEPs, payments under the Civil List Act and Royal Household Pension Scheme. These are Standing Services of the Consolidated Fund which are included in the Treasury's Resource Budget, but outside the boundary of these resource accounts;

- expenditure associated with the award of Honours and Dignities;
- grant support to certain Parliamentary bodies: the Inter-Parliamentary Union; the Commonwealth Parliamentary Association; the British American Parliamentary Group and the British-Irish Inter-Parliamentary Body.

*Results in 2002-03*

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

- in its Departmental Report;
- in the Economic and Fiscal Strategy Report and Financial Statement and Budget Report (HC 500, April 2003); and
- on the Treasury website ([www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)).

13. During 2002-03, the Treasury continued to improve the quality of its service to Ministers through its change programme, which focuses on professional people, professional tools and professional management. Other developments included:

- On 15 July 2002 the Treasury published the results of the 2002 Spending Review in two White Papers (Cm 5570 and 5571, available on the Treasury website). These included spending plans and a new Aim and Objectives for the Treasury covering the years 2003-06.
- During July and August 2002 the Treasury's headquarters moved to One Horse Guards Road, London SW1. This wholly refurbished office is at the west end of the Treasury's former building Government Offices, Great George Street (GOGGS). It brings together on one site the staff previously located in the East end of GOGGS and Allington Towers, both in London SW1. Responsibility for the lease on Allington Towers has been transferred to the Home Office. One Horse Guards Road has been refurbished under a Private Finance Initiative contract. Further details are given in the notes to these accounts.
- The Permanent Secretary and Principal Accounting Officer, Sir Andrew Turnbull, left the Treasury in July 2002 to take up his appointment as Head of the Home Civil Service and Secretary to the Cabinet. He was replaced by Gus O'Donnell.
- Following a detailed review of the current arrangements and future requirements for government debt and asset management, the Office of HM Paymaster General (OPG), formerly part of the National Investment and Loans Office (NILO), was transferred to the Treasury with effect from 1 July 2002. The remainder of NILO was integrated with the Debt Management Office (see paragraph 21 below) from the same date. This reorganisation was designed to deliver improved management of the central government balance sheet, and to offer a more robust, flexible and innovative service to public sector clients whilst maintaining existing services.
- As commercial aviation insurance against acts of terrorism or war had again become available, Troika ceased to provide cover for events with effect from 1 November 2002.
- The functions of the Registrar of Friendly Societies transferred to the Financial Services Authority with effect from 1 December 2001, the residual liabilities and assets of the RFS being transferred to the Treasury with effect from 1 April 2002.
- A licensing agreement was signed on 27 September 2002 between the Disposal Services Agency of the Ministry of Defence (on behalf of HM Government) and Odyssey Marine Exploration for the salvage of a wreck believed to be HMS Sussex. HMS Sussex sank in the Western Mediterranean in 1694 carrying gold and silver coins valued at the time at £1m. The wreck and its contents are legally the property of Her Majesty's Government. Under the agreement a share of the net proceeds of the sale of coins and other marketable artefacts will be shared between the two parties as set out in the Treasury's Resource Accounts for 2001/2. HM Treasury will receive the net proceeds of the sale of the gold and silver coins. Insufficient certainty exists at present to confirm the presence or value of any potential salvage, so the issue is dealt with in the accounts as a contingent asset.

- Treasury continued to finance an independent inquiry into the situation arising at the Equitable Life Assurance Society. Its costs in 2002-03 totalled £1,592k and are included in these accounts within the core Treasury's expenditure.

#### *Events since 31 March 2003*

14. On 9 June the Chancellor announced the result of the Treasury's assessment of its tests relating to entry to European Economic and Monetary Union. The assessment is available on the Treasury website.
15. On 9 July the Chancellor announced a major review of the best organisational arrangements to achieve Government's tax objectives. The review will be chaired by Gus O'Donnell, Permanent Secretary to the Treasury, working with the revenue departments and their Chairmen and report to Treasury Ministers.

#### **The future**

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

#### **Debt Management Office**

##### *Activities*

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

##### *Results in 2002-03*

20. In 2002-03 the DMO met both its debt and cash management remits as directed by HM Treasury, as well as meeting most of its objectives and substantially all of its published targets in full. 2002-03 saw gilt sales of £26.3 billion, the first year of positive net issuance since 1997-98 and the stock of Treasury bills rose by £5.3 billion to £15.0 billion. The Local Authority Deposit Facility pilot scheme has been successful and was extended to 150 local authorities over the course of the year. The introduction of the Guaranteed Equity Bond (GEB) by National Savings & Investments has been a success, with the DMO hedging a further four GEB issues in 2002-03. These activities are outside the Treasury Resource Account boundary and therefore not shown in these accounts. Further details are available in the Debt Management Account Annual Report and Accounts (HC866, available on DMO's website [www.dmo.gov.uk](http://www.dmo.gov.uk)).

21. Following the review of government debt and asset management described in paragraph 13 above, the DMO acquired responsibility for the Commissioners for the Reduction of the National Debt (CRND) and the Public Works Loan Board (PWLB) with effect from 1 July 2002. The CRND invest funds for public sector clients, primarily government departments, and the PWLB lends money to public sector bodies, primarily local authorities.

22. Robert Stheeman replaced Mike Williams as Chief Executive and Additional Accounting Officer of the DMO in January 2003.

*Events since 31 March 2003*

23. There have been no significant or unexpected events since 31 March 2003.

*The future*

24. Implementation of the market risk analysis system the DMO commissioned in 2002-03 will be largely completed in 2003-04. This will provide the DMO with an enhanced capability for analysis of market risk to deliver improved assessment of the risk/reward trade-off for proposed strategies and policies.

25. The DMO addresses its risks in an integrated way as outlined in the Statement of Internal Control included in the DMO Annual Report and Accounts.

**Office of Government Commerce***Activities*

26. The OGC was created in April 2000 to lead a wide-ranging programme to modernise procurement in central civil Government and deliver substantial value for money improvements. The overall role and purpose of OGC (its vision) is to work with central civil Government as a catalyst to achieve best value for money in commercial activities. It has an executive agency, OGCBuying.solutions, which has trading fund status.

*Results in 2002-03*

27. OGC's primary target for 2000-01 to 2002-03 was to work with central civil government to deliver £1 billion of value for money savings from commercial activities (target 10 of the Treasury's PSA 2001-04). To underpin the delivery of this target, for 2002-03 OGC had ten key delivery strategies. These are set out in the table below.

**KEY DELIVERY STRATEGIES**

1. Realise OGC's vision by establishing and continuously developing OGC as a centre of excellence, with a highly motivated staff of suitably skilled and experienced practitioners.
2. Help civil Government departments secure value for money through use of best practice techniques.
3. Achieve value for money by catalysing the sharing and exchange of knowledge about Government commercial activity.
4. Drive forward improvements in the management of large, complex and/or novel projects involving the acquisition of third party goods, works and/or services.
5. Catalyse and facilitate commercial relationships with suppliers and partners that generate value for money.
6. Ensure that staff in central civil departments have the professionalism and skills to meet the needs of all aspects of Government commerce in the 21st century.
7. Implement and continue to develop a process for the strategic management of key suppliers so that value for money is gained from these relationships.
8. Achieve effective competition for Government business through simplified access to the Government market place for suppliers.
9. Realise a step change in efficiency by catalysing the use of e-procurement for Government's interactions with its supply base.
10. Support the wider public sector in the achievement of value for money.

28. OGC has made excellent progress against its PSA target and in the first two years of the three year target period reported value for money gains savings of £815 million. OGC is comfortably on target to achieve or exceed the £1 billion PSA target. Results for 2002-03 will be known by the Autumn of 2003-04. Further information can be found in:

- The Departmental Report;
- The OGC website (<http://www.ogc.gov.uk>)

29. During 2002-03 the OGC made a start on rationalising its own accommodation. Following a refurbishment programme, it co-located its two London offices (Fleetbank House and Trevelyan House) in Trevelyan House. The physical co-location of staff began in August 2002 and was completed in November 2002 with the refurbishment itself continuing into 2003-04. The OGC also closed down its Bristol offices, with the sale of the property helping to finance the Trevelyan House refurbishment. For the SR2002 period, OGC's Workspace Programme will address further rationalisation and whole life VFM improvements across the full range of its locations

#### *The future*

30. During 2003-04 OGC will build on achievements to date. A new and more challenging PSA target has been agreed:

*By 2005-06, to deliver £3 billion of value for money gains in central civil Government procurement through the Office of Government Commerce.*

31. To deliver the PSA target, OGC and departments have agreed seven OGC key priorities:

- Develop and manage the Gateway process (a system of peer review for major projects);
- Improve the commercial skills available to departments;
- Improve government's ability to manage supplier relationships;
- Make the government marketplace more attractive to suppliers in all sectors;
- Develop innovative tools and techniques and more effective ways of achieving private sector involvement;
- Help departments to embed best practice (including operational guidance) and cross-government lessons learned in their commercial activities;
- Catalyse collaborative opportunities (including aggregation deals).

32. To underpin the collaborative work that will be driven forward by OGC and departments in achieving these priorities, a Joint Action Plan has been drawn up with central civil Government departments. The plan sets out the actions that will be driven by OGC and departments in support of each of the key priorities, and will be published as part of OGC's Business Plan for 2003-04.

## **Financial position and results in outline**

### *Financial position (Schedule 3)*

33. The Treasury's activities are predominantly financed by Supply voted by Parliament. The Treasury's balance sheet is dominated by its shareholding in the Bank of England (note 15.1), which is valued in line with the Bank's net assets at some £1.5 billion. Other significant assets and liabilities include:

- the operational offices and office equipment used by the three business units (note 14). The PFI refurbishment of 1 Horse Guards Road has added £71.6 million to tangible fixed assets, and refurbishment of OGC's Trevelyan House offices added £3 million;
- investments in Partnerships UK, the Royal Mint, and a number of former nationalised industries (note 15). Holdings in Powergen, Innogy and Railtrack bonds with a combined value of £14 million were disposed of during the year;

- the surplus property portfolio (note 17), and the Whitehall heating and power systems managed by OGC on behalf of Government as a whole. Sales of surplus freehold properties realised £74 million. Provisions for the vacant leasehold properties managed by OGC have reduced by £18.5 million, recognising the imminent disposal of two properties;
- provision for early retirement costs (note 22). An early severance scheme under OGC's Medium Term Strategy resulted in an increase of £4 million in this provision;
- the long term creditor for the 1 Horse Guards Road PFI contract (note 14.2 and note 21).

*Financial results (Schedules 1 and 2)*

34. Net expenditure on Request for Resources (RfR) 1, which covers core Treasury (other than coinage expenditure) and the DMO, rose by £96 million to £285 million.

35. The principal cause of increase was the Treasury's move to 1 Horse Guards Road. In 2001-02 most of the Treasury had been accommodated in GOGGS, on which no capital charge was payable because it was valued at zero in its unrefurbished state. Expenditure in 2002-03 includes recurrent operating costs of £10.2 million and a non-recurring £69.4 million non-cash charge – see note 14.2.

36. There was a £3.8 million increase in staff costs over the preceding year. Part of this increase reflected the full-year effect of the increase in Treasury staffing during 2001-02.

37. Net expenditure on RfR1 was £19.1 million less than Estimate. This is wholly accounted for by variance in the cost of capital charge on the Treasury's assets, which cannot be predicted with certainty at the point at which Estimates are prepared. As noted above the asset base is dominated by the Bank of England. The actual net asset value of the Bank fell slightly over the year, contributing to the variance. Other elements of RfR1 had a total variance of £2 million.

38. Expenditure on coinage (RfR 2) was £34 million. This was a reduction of over £5 million on 2001-02, and £4 million less than Estimate. The main factor in this reduction was reduced demand for circulation coinage from the public, as channeled through the banks and the Post Office. 1.585 million circulation coins were issued in the year, compared to 1.911 million in 2001-02 (2.069 million in 2000-01). Demand for coin is inherently volatile.

39. OGC achieved an outturn of £40.0 million against its RfR 3 estimate of £46.2 million, an underspend of £6.2 million. This underspend is largely attributable to programme transactions on surplus leasehold properties where the timing of transactions is subject to the uncertainties prevalent in property dealings.

*Cash flows (Schedule 4)*

40. The timing of these transactions was also the largest single factor in the underspend of some £30 million against the Net Cash Requirement. At the time of the Spring Supplementary Estimate OGC anticipated that a major leasehold disposal would take place before the end of the financial year, requiring a payment of over £12 million. In the event the payment was not made until April 2003

41. The cash flow statement shows a net cash outflow from operating activities of £72 million, compared to a cash inflow of £148 million in 2001-02. Payments to the Consolidated Fund have fallen from £295 million to £161 million. In both cases the 2001-02 figures were unusual, primarily attributable to the cash receipt during 2001-02 of £204 million excess premium income from the Pool Re commercial property reinsurance scheme, after the fund reached its target level of £1 billion, and the subsequent payment of that amount to the Consolidated Fund.

42. The disposals of investments and freehold properties referred to above realised £87 million. The PFI financed refurbishment of 1 Horse Guards Road features in the cash flow statement only to the extent of the unitary payment, of which £10.2 million is included within cash flows from operating activities, and £734k, the element of principal repayment, is shown as a financing cash outflow.

## Management

### *Ministers and senior officials*

43. Note 4.3 identifies the Treasury's Ministers and senior officials during 2002-03.

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

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

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

### *Remuneration of Ministers and Board Members*

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

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

48. For the remaining members of the Management Board remuneration is determined by H M Treasury's Pay Committee in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

49. Further details on remuneration are set out in note 4 to these accounts.

### *Diversity and Equality*

50. The Treasury aims to achieve create an inclusive environment that values and harnesses diversity to improve the organisation's effectiveness. Policies are in place to guard against discrimination and aim to ensure that there are no unfair or illegal discrimination barriers to employment and advancement.

51. The Treasury has published a Race Equality Scheme under the Race Relations (Amendment) Act 2000. Reasonable adjustments are made to meet the needs of prospective and existing employees who have disabilities. The Treasury offers a wide range of support to people to help them to achieve a work/life balance (e.g home-working, alternative work patterns, etc).

52. A cross-Departmental Steering Group is responsible for monitoring progress against the diversity agenda. Staff networks have been established and work with management to ensure that their concerns are taken into account in all internal processes and procedures.

53. The OGC and DMO are also equal opportunities employers.

### *Payment of Suppliers*

54. The Treasury's target is to make all payments not in dispute within 30 days or less of acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2002-03 HMT achieved a performance of 82.5% against this target. The shortfall in performance arose during the period of transition to a new financial information system towards the end of 2002-03. There has subsequently been a recovery in performance.

55. Over the same period, the OGC achieved a performance of 99.4%.

*Communication with staff*

56. Each of the Treasury's business units has a policy of actively communicating with staff, and consulting wherever appropriate. A wide variety of media are employed, including intranets, team briefings, newsletters and discussion with trade union representatives.

Gus O'Donnell  
Permanent Secretary

14 July 2003

## STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

The Department has prepared resource accounts for the year ended 31 March 2003 in accordance with the Resource Accounting Manual, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

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

As Permanent Secretary and Principal Accounting Officer since July 2002, I have overall responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General. In preparing the accounts, I am required to comply with the Resource Accounting Manual issued by the Treasury and in particular to:

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

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

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

Gus O'Donnell  
Permanent Secretary

14 July 2003

## STATEMENT OF INTERNAL CONTROL 2002-03

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the department's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Immediate responsibility for the systems of internal control in the Office of Government Commerce and in the UK Debt Management Office lies with their respective Chief Executives as Additional Accounting Officers. The division of responsibility between us is defined by Government Accounting (annex 4.1 <http://www.government-accounting.gov.uk/current/frames.htm>) and by a separate Memorandum, which we have agreed.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. Measures have been put in place during the year to address the areas for improvement identified in the Statement of Internal Control for 2001-2002.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The department has established the following processes:

- The Treasury Management Board (TMB) meets monthly to consider the plans and strategic direction of the department (the board comprises the Managing Directors of the Treasury and two external independent members);
- TMB maintains an organisation-wide risk register and reviews this regularly;
- An audit committee considers governance, internal control and risk management;
- There are regular reports by internal audit on the adequacy and effectiveness of the department's risk management, control and governance processes, in accordance with the Government Internal Audit Standards;
- There are quarterly progress reports to TMB from managers responsible for the Treasury's Public Service Agreement (PSA) targets, which include the steps they are taking to meet key performance indicators and manage risks in their areas of responsibility;
- Directorates have business plans under a system which identifies and keeps up to date the key risks we face, and assigns a responsible owner for managing each risk;
- Risk awareness training is embedded in the Treasury Development Programme (TDP) courses, including training in public spending, project management and micro-economics, which all key staff undertake;
- TDP also covers Treasury guidance on investment appraisal, a robust prioritisation methodology based on risk ranking and cost-benefit analysis;
- There is regular monitoring of key operational information technology and information systems projects, in line with OGC guidance;
- The Chief Executives of the Debt Management Office and the Office of Government Commerce have similar internal controls.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Gus O'Donnell  
Permanent Secretary

14 July 2003

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

I certify that I have audited the financial statements on pages 17 to 56 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 26.

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

As described on page 12, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and directions made there under by the Treasury Officer of Accounts, and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

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

I review whether the statement on page 13 reflects the Department's compliance with Treasury Officer of Accounts' guidance entitled "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements specified by the Treasury Officer of Accounts, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

### **Basis of audit opinion**

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In forming my opinion I have also evaluated the overall adequacy of the presentation of the information in the financial statements. My opinion takes into account HM Treasury's view, as stated in note 1.2 on page 23, that investments with international financial institutions should not be recognised in these financial statements but disclosed in separate trust statements of the Department.

**Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of HM Treasury at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made there under by the Treasury Officer of Accounts; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn  
National Audit Office  
Comptroller and Auditor General  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

15 July 2003

## SCHEDULE 1

**Summary of Resource Outturn**  
*for the year ended 31 March 2003*

	Estimate			Outturn			Net Total Outturn compared with Estimated Saving/ (excess)	Prior Year Outturn
	Gross Expenditure	A-in-A	Net total	Gross Expenditure	A-in-A	Net total		
	£000	£000	£000	£000	£000	£000		
Request for Resources 1 (Note 11)	312,132	(8,057)	304,075	293,006	(8,057)	284,949	19,126	188,947
Request for Resources 2 (Note 11)	38,366	-	38,366	34,449	-	34,449	3,917	39,921
Request for Resources 3 (Note 11)	66,269	(20,031)	46,238	58,355	(18,384)	39,971	6,267	6,205
<b>Total Resources</b>	<b>416,767</b>	<b>(28,088)</b>	<b>388,679</b>	<b>385,810</b>	<b>(26,441)</b>	<b>359,369</b>	<b>29,310</b>	<b>235,073</b>
Non-Operating Cost A-in-A			3,538			3,538	-	2,231
<b>Net Cash Requirement</b>			<b>204,033</b>			<b>174,283</b>	<b>29,750</b>	<b>170,282</b>
<b>Reconciliation of resources to net cash requirement</b>				Estimate Net total	OGC	HMT	Net total Outturn	Net Total Outturn compared with Estimate saving/ (excess)
	Note		£000	£000	£000	£000	£000	£000
<b>Total resources</b>			<b>388,679</b>	<b>39,971</b>	<b>319,398</b>	<b>359,369</b>	<b>29,310</b>	
<b>Capital:</b>								
Acquisition of fixed assets and freehold property – cash	13, 14, 15 & 17		11,494	5,567	3,022	8,589	2,905	
Acquisition of fixed assets – on balance sheet PFI			141,000	-	141,000	141,000	-	
<b>Non-operating cost A-in-A:</b>								
Disposal of fixed assets and freehold property	13, 14, 15 & 17		(3,538)	(76,349)	(14,604)	(90,953)	87,415	
Less excess to be surrendered				72,844	14,571	87,415	(87,415)	
<b>Accrual adjustments:</b>								
Non-cash items	5 & 6		(226,318)	(10,137)	(192,644)	(202,781)	(23,537)	
Changes in working capital other than cash	16		(143,353)	3,050	(138,597)	(135,547)	(7,806)	
Use of provision	22		36,750	7,978	1,113	9,091	27,659	
Adjustment for RFR3			(681)	-	-	-	(681)	
Transitional adjustment			-	-	(1,900)	(1,900)	1,900	
<b>Net cash requirement (Schedule 4)</b>			<b>204,033</b>	<b>42,924</b>	<b>131,359</b>	<b>174,283</b>	<b>29,750</b>	

**Explanation of variance between Estimate and Outturn (net total resources):****Request for Resources 1 (favourable variance £19,126k)**

The difference is wholly accounted for by the variance in the cost of capital charged on the Treasury assets (see para 37 of the Annual Report and Operating and Financial Review).

**Request for Resources 2 (favourable variance £3,917k)**

The reduction reflected reduced demand for coinage from the banks (see para 38 of the Operating and Financial Review). Demand for coin is inherently volatile.

**Request for Resources 3 (favourable variance £6,267k)**

The underspend on RfR 3 is primarily attributable to the consequences for the cost of capital charges of timing differences in property related transactions that are difficult to forecast with certainty. At the time of the Spring Supplementary it was still anticipated that a major leasehold disposal to the Home Office would take place before the end of the financial year and that remained the position until March when the department confirmed that it would not take the lease until April 2003. Also another property related transaction was completed very late in the financial year when a suitable commercial opportunity presented itself.

**Explanation of the variation between Estimate Net Cash and outturn (Net Cash Requirement) (favourable variance £29,750k):**

The underspend against the Net Cash Requirement is in part a function of the cash based underspend on RfR 2, and partly attributable to cash movements on provisions not taking place as anticipated. The leasehold disposal to the Home Office referred to above entailed a £12m payment to the Home Office, which OGC expected to make during the year but which was not made until April 2003. The organisation is working to improve its accuracy in forecasting outturns.

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

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

	Forecast 2002-03		Outturn 2002-03	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A			2,953	5,874
Non-operating income and receipts – excess A-in-A				
Other operating income and receipts not classified as A in A	44,483	<i>44,158</i>	71,547	<i>86,874</i>
Other non-operating income and receipts not classified as A in A	-	-	87,415	<i>83,548</i>
Other amounts collectable on behalf of the Consolidated Fund	1,565	<i>50</i>	-	<i>10,704</i>
<b>Total</b>	<b>46,048</b>	<b><i>44,208</i></b>	<b>161,915</b>	<b><i>187,000</i></b>

**Actual outturn – resources:**

**Request for Resources 1:** Actual amount net resources outturn £284,948,511.15. Actual amount of savings in resources over Estimate £19,126,488.85.

**Request for Resources 2:** Actual amount net resources outturn £34,449,167.52. Actual amount of savings in resources over Estimate £3,916,832.48.

**Request for Resources 3:** Actual amount net resources outturn £39,970,808.75. Actual amount of savings in resources over Estimate £6,267,191.25.

**Actual outturn – cash:**

Net cash requirement: Outturn net requirement £174,282,946.26 which is £29,750,053.74 less than Estimate. The actual receipts surrenderable to the Consolidated Fund were £186,999,822.92. In addition, further amounts of £8,732K and £39,896,224.10 are surrenderable in relation to previous years.

*The notes on pages 23 to 56 form part of these accounts.*

**SCHEDULE 2****Operating Cost Statement***for the year ended 31 March 2003*

	Note	2002-03			2001-02
		OGC	HMT	Total	Total
		£000	£000	£000	£000
<b>Administration costs</b>					
Staff costs	4	16,183	49,909	66,092	61,303
Exceptional item – building revaluation	14.2	-	69,400	69,400	-
Other administration costs	5	35,509	52,397	87,906	62,175
<b>Gross administration costs</b>		<b>51,692</b>	<b>171,706</b>	<b>223,398</b>	<b>123,478</b>
Operating income	7	(15,365)	(6,110)	(21,475)	(19,251)
<b>Net administration costs</b>		<b>36,327</b>	<b>165,596</b>	<b>201,923</b>	<b>104,227</b>
<b>Programme costs</b>					
<b>Request for Resources 1: HM Treasury</b>					
Expenditure	6		121,299	121,299	129,460
Less: income	7		(75,018)	(75,018)	(82,906)
			<b>46,281</b>	<b>46,281</b>	<b>46,554</b>
<b>Request for Resources 2: UK Coinage</b>					
Expenditure	6		34,449	34,449	40,179
Less: income	7		(160)	(160)	(258)
			<b>34,289</b>	<b>34,289</b>	<b>39,921</b>
<b>Request for Resources 3: OGC</b>					
Expenditure	6	6,663		6,663	(16,517)
Less: income	7	(4,287)		(4,287)	(17,985)
		<b>2,376</b>		<b>2,376</b>	<b>(34,502)</b>
<b>Non-supply</b>					
Bank of England Services	11.2		11,179	11,179	12,171
<b>Total net programme costs</b>		<b>2,376</b>	<b>91,749</b>	<b>94,125</b>	<b>64,144</b>
<b>Total net operating costs</b>		<b>38,703</b>	<b>257,345</b>	<b>296,048</b>	<b>168,371</b>
<b>Total net resource outturn</b>	9	<b>39,971</b>	<b>319,398</b>	<b>359,369</b>	<b>235,073</b>

Income and expenditure are derived from continuing operations, except for income and expenditure related to insurance supervision and Troika which are discontinued operations (see notes 7.1 and 15.2).

**Statement of Recognised Gains and Losses***for the year ended 31 March 2003*

	Note	2002-03			2001-02
		OGC	HMT	Total	Total
		£000	£000	£000	£000
Net gain on revaluation of tangible fixed assets	14	2,145	2,680	4,825	1,710
Net (loss)/gain on revaluation of investments	16	-	(20,600)	(20,600)	42,541
Net gain on revaluation of surplus freehold property	17	1,657	-	1,657	35,541
<b>Total recognised gains /(losses) for the financial year</b>		<b>3,802</b>	<b>(17,920)</b>	<b>(14,118)</b>	<b>79,792</b>

*The notes on pages 23 to 56 form part of these accounts.*

**SCHEDULE 3****Balance Sheet***as at 31 March 2003*

	Note	2003			2002
		OGC	HMT	Total	Total
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	13	344	1,191	1,535	1,487
Tangible assets	14	21,683	107,920	129,603	57,251
Investments	15	350	1,531,139	1,531,489	1,551,980
<b>Total fixed assets</b>		<b>22,377</b>	<b>1,640,250</b>	<b>1,662,627</b>	<b>1,610,718</b>
<b>Current assets</b>					
Surplus freehold property	17	3,400	-	3,400	75,831
Stocks	18	103	1,857	1,960	1,956
Debtors due within one year	19	9,900	56,624	66,524	77,714
Debtors due after more than one year	19	236	8,186	8,422	9,735
Investments	15	-	6,017	6,017	20,707
Cash at bank and in hand	20	90,644	11,838	102,482	74,432
<b>Total current assets</b>		<b>104,283</b>	<b>84,522</b>	<b>188,805</b>	<b>260,375</b>
Creditors: amounts falling due within one year	21	(61,453)	(142,515)	(203,968)	(168,456)
<b>Net current assets/(liabilities)</b>		<b>42,830</b>	<b>(57,993)</b>	<b>(15,163)</b>	<b>91,919</b>
<b>Total assets less current liabilities</b>		<b>65,207</b>	<b>1,582,257</b>	<b>1,647,464</b>	<b>1,702,637</b>
Creditors: amounts falling due after more than one year	21	-	(141,796)	(141,796)	-
Provisions for liabilities and charges	22	(28,099)	(2,523)	(30,622)	(48,393)
		<b>37,108</b>	<b>1,437,938</b>	<b>1,475,046</b>	<b>1,654,244</b>
<b>Taxpayers' equity</b>					
Revaluation reserve	24	3,333	223,003	226,336	300,817
General fund	23	33,775	1,214,935	1,248,710	1,353,427
		<b>37,108</b>	<b>1,437,938</b>	<b>1,475,046</b>	<b>1,654,244</b>

Gus O'Donnell  
Permanent Secretary

14 July 2003

*The notes on pages 23 to 56 form part of these accounts.*

**SCHEDULE 4****Cash Flow Statement***for the year ended 31 March 2003*

	Note	2002-03			2001-02
		OGC	HMT	Total	Total
		£000	£000	£000	£000
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(35,733)</b>	<b>(36,874)</b>	<b>(72,607)</b>	<b>148,388</b>
Cash inflow from capital expenditure and financial investment		70,115	8,101	78,216	31,616
Payments of amounts due to the Consolidated Fund		(49,873)	(111,610)	(161,483)	(295,751)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-	-	117
Cash transferred from RFS		-	-	-	120
Financing		50,000	132,635	182,635	154,304
<b>Increase/(decrease) in cash in the period</b>	20	<b>34,509</b>	<b>(7,748)</b>	<b>26,761</b>	<b>38,794</b>
<b>Notes to the cash flow statement</b>					
<b>Reconciliation of operating cost to operating cash flows</b>					
Net operating cost (Schedule 2)		38,703	257,345	296,048	168,371
Adjust for non-cash transactions	5, 6	(10,806)	(203,839)	(214,645)	(106,071)
Adjust for movements in working capital other than cash	16	(142)	(17,745)	(17,887)	(228,334)
Use of provisions	22	7,978	1,113	9,091	17,646
<b>Net cash outflow/(inflow) from operating activities</b>		<b>35,733</b>	<b>36,874</b>	<b>72,607</b>	<b>(148,388)</b>
<b>Analysis of capital expenditure and financial investment</b>					
Investments additions	15	-	-	-	5,000
Surplus freehold property additions	17	-	-	-	74
Intangible fixed assets additions	13	212	962	1,174	1,008
Tangible fixed assets additions	14	5,355	2,060	7,415	5,888
Proceeds of disposals of fixed assets		(1,594)	(11,123)	(12,717)	(1,597)
Proceeds of disposal of surplus freehold property	17	(74,088)	-	(74,088)	(41,989)
<b>Net cash inflow for capital expenditure and financial investment</b>		<b>(70,115)</b>	<b>(8,101)</b>	<b>(78,216)</b>	<b>(31,616)</b>
<b>Analysis of financing</b>					
From the Consolidated Fund (Supply): current year		50,000	133,193	183,193	154,684
From the Consolidated Fund (Supply) prior years		-	461	461	-
Repaid to the Consolidated Fund (Supply)		-	(285)	(285)	(380)
Capital element of on balance sheet PFI repayments		-	(734)	(734)	-
<b>Net financing</b>		<b>50,000</b>	<b>132,635</b>	<b>182,635</b>	<b>154,304</b>
(Increase)/decrease in cash	20	(34,509)	7,748	(26,761)	(38,794)
<b>Net cash flows other than financing</b>		<b>15,491</b>	<b>140,383</b>	<b>155,874</b>	<b>115,510</b>
<b>Adjust for payments and receipts not related to Supply:</b>					
Amounts due to the Consolidated Fund – received in a prior year and paid over		(46,952)	(10,257)	(57,209)	(23,839)
Amounts overpaid to the Consolidated Fund		-	(10,419)	(10,419)	-
Repayment received from the Consolidated Fund		-	9	9	-
Amounts due to the Consolidated Fund – received and not paid over		74,114	9,587	83,701	78,461
Cash transferred from RFS		-	-	-	120
Transitional adjustments		271	1,322	1,593	30
<b>Add Supply financed repayment of financing</b>		<b>-</b>	<b>734</b>	<b>734</b>	<b>-</b>
Capital element of on balance sheet PFI financing		-	734	734	-
<b>Net Cash Requirement for the year (Schedule 1)</b>		<b>42,924</b>	<b>131,359</b>	<b>174,283</b>	<b>170,282</b>

Amount of grant actually issued to support the Net Cash Requirement: £183,193,000.00.

Amount of grant actually issued to support the prior year Net Cash Requirement: £461,090.13.

*The notes on pages 23 to 56 form part of these accounts.*

**SCHEDULE 5****Resources by Departmental Aim and Objectives***for the year ended 31 March 2003*

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

	2002-03			2001-02
	Gross Expenditure	Income	Net	Net
	£000	£000	£000	£000
<b>Objectives:</b>				
(1) Maintaining a stable macroeconomic framework with low inflation;	99,126	(17,875)	81,251	75,701
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;	42,596	(4,508)	38,088	22,382
(3) Improving the quality and cost effectiveness of public services;	95,581	(22,546)	73,035	13,817
(4) Increasing the productivity of the economy;	20,379	(929)	19,450	10,025
(5) Expanding economic and employment opportunities for all;	1,722	(78)	1,644	2,167
(6) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	13,496	(615)	12,881	3,248
(7) Achieving a high standard of regularity, propriety and accountability in public finance;	25,067	(1,142)	23,925	9,281
(8) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	69,996	(52,019)	17,977	20,766
(9) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.	27,913	(1,229)	26,684	9,453
(10) Other resources required not falling under HM Treasury's nine main objectives.	1,113	-	1,113	1,531
<b>Net operating cost</b>	<b>396,989</b>	<b>(100,941)</b>	<b>296,048</b>	<b>168,371</b>

The allocation of resources to objectives reflects estimates made by relevant managers within the Department.

The main reason for change between years is the exceptional charge relating to 1 Horse Guards Road (see note 14.2) which is distributed across all of the Treasury's nine objectives. Other changes are primarily the result of variations in programme expenditure. Details are given in note 25.

*The notes on pages 23 to 56 form part of these accounts.*

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

### 1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the 2002-3 *Resource Accounting Manual* (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The department's accounting policies have been applied consistently in dealing with items material in relation to the accounts.

#### 1.1 Accounting Convention

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

#### 1.2 Basis of Consolidation

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

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

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

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

#### 1.3 Tangible Fixed Assets

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

Generally prior to 2002-03, the threshold for capitalising tangible and intangible fixed assets ranged between £500 and £1,000 per item (exclusive of VAT). With effect from 1 April 2002 the threshold for core Treasury and DMO was raised to £5,000, except for antiques where no threshold is set. OGC thresholds remain unchanged.

Furniture and equipment and IT equipment are stated at the lower of replacement cost and recoverable amount and are subject to indexation. The revaluation has been calculated in line with the indices provided by the Office for National Statistics in their publication "Price index numbers for current cost accounting".

Antiques in use are stated at estimated market value.

## 1.4 Intangible Fixed Assets

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

## 1.5 Depreciation

Freehold land and antiques have not been depreciated.

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

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

## 1.6 Investments

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

- (i) Public dividend stock held within the Royal Mint and OGCbuying.solutions, loan stock held in Troika Insurance Company Limited and bonds held in Partnerships UK are shown as at nominal value;
- (ii) Shares held in privatised industries are quoted at market prices as at 31 March 2003.
- (iii) The investment in the Bank of England is shown at 100% of the Bank's net assets as at 28 February 2003. The investment in Partnerships UK is shown at 44.56% of its net assets as at 31 March 2003.

## 1.7 Stocks

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

## 1.8 Operating Income

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

## 1.9 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department.

## 1.10 Capital Charge

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

- (i) Where individual rates of return have been set for investments in the Bank of England (7%), the Royal Mint (11%) and OGCbuying.solutions (8%) and are applied to the underlying net assets of each body;
- (ii) for donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General where the charge will be at a nil rate;
- (iii) for assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund, where the charge will be at a nil rate.

With effect from 1 April 2003 the 6% cost of capital will be replaced with 3.5% in line with Treasury guidance.

## 1.11 Foreign Exchange

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

## 1.12 Pensions

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

## 1.13 Early Departure Costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides for the costs when the early retirement is agreed and binding on the Department, effectively charging the full cost at the time of the decision and holding this in a provision. In the past the Department has been able to settle some of its liabilities by making an advance payment to the Paymaster General's Account for the credit of the Civil Service Superannuation Request for Resources. The sum of the remaining advanced funding yet to be applied is included within the debtors balance. A provision has been established for the total liability falling on the department for all agreed early retirement cases gross of any advanced funding made. The liability shown in the balance sheet has been discounted using a 6% discount rate for 2001-02 and 2002-03 in line with Treasury guidance.

## 1.14 Surplus Property for Disposal

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

### **Valuation**

Freehold and long leasehold land and buildings are recognised as current assets for disposal at their market value at 31st March 2003. The properties are periodically independently valued at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors, and are revalued in line with appropriate indices in the intervening years.

### **Leasehold Provisions**

The leases on vacant leasehold properties are regarded as onerous contracts under Financial Reporting Standard 12. Therefore, the future liabilities on leaseholds are provided for, and subsequently payments under the leases are charged against the provision. These liabilities are assessed on the basis of the net present value of the future outgoings associated with the lease, discounted at 6% for 2001-02 and 2002-03 in line with Treasury guidance.

### **1.15 Private Finance Initiative (PFI) transactions**

PFI transactions have been accounted for in accordance with Technical Note No1 (revised), entitled "How to account for PFI Transactions" as required by the Resource Accounting Manual. Where the balance of risk and rewards of ownership of the PFI property are borne by the Department, the Department shows an asset on its balance sheet for the fair value of the property, with an offsetting creditor being paid off during the life of the PFI contract through attribution of part of the unitary payments. The balance of the unitary payments are recorded as other administration costs, analysed between interest charges and service charges contract. The creditor is adjusted annually to reflect the indexation of the unitary payment in accordance with the contract. The adjustment does not form part of the unitary payment but is charged to the operating cost statement as non-cash administration costs.

### **1.16 Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprised:

Items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the department entering into the arrangement;

All items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of the resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and at the amount reported to Parliament separately noted. Contingent liabilities not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

### **1.17 Value Added Tax**

Most activities of the department are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

## **2. CHANGE TO ESTIMATION TECHNIQUE**

With effect from 1 April 2002, the threshold for the capitalisation of expenditure by Treasury on tangible and intangible assets was increased to £5k, with the exception of antiques where the threshold remains at £1k. This has had the following effect:

Schedule 1, 2 and 5: increase in expenditure of £1,896k

Schedule 3: decrease in fixed assets as at 31 March 2003 of £3,113k

The OGC has not changed its threshold.

### 3. TRANSFER OF FUNCTIONS FROM NILO

As part of the machinery of government changes implemented on 1 July 2002 responsibility for the functions previously undertaken by the National Investment and Loans Office (NILO) was transferred to Treasury. The staff and certain assets and liabilities related to delivering the functions were also transferred to the department as at that date. The transfer has been accounted for as a business combination using merger accounting principles in accordance with the RAM. Accordingly, the results and cash flows related to the transferred services have been brought into account from the start of the financial year. Prior year comparative figures have been restated in both the balance sheet and operating cost statement.

#### Analysis of the operating cost statement between the function transferred from NILO and other functions for the year ended 31 March 2003

	2002-03		HMT Total £000
	Transferred from NILO £000	Other £000	
<b>Administration costs</b>			
Staff costs	1,136	48,773	49,909
Other administration costs	636	121,161	121,797
<b>Gross administration costs</b>	<b>1,772</b>	<b>169,934</b>	<b>171,706</b>
Operating income	(2,149)	(3,961)	(6,110)
<b>Net administration costs</b>	<b>(377)</b>	<b>165,973</b>	<b>165,596</b>
<b>Programme costs</b>			
<b>Request for Resources 1: HM Treasury</b>			
Expenditure	5,000	116,299	121,299
Less: income	(4,908)	(70,110)	(75,018)
	<b>92</b>	<b>46,189</b>	<b>46,281</b>
<b>Request for Resources 2: UK Coinage</b>			
Expenditure		36,449	36,449
Less: income		(160)	(160)
		<b>34,289</b>	<b>34,289</b>
Bank of England Services		11,179	11,179
<b>Total net programme (income) / costs</b>	<b>92</b>	<b>91,657</b>	<b>91,749</b>
<b>Total net operating costs</b>	<b>(285)</b>	<b>257,630</b>	<b>257,345</b>

The functions of the Registrar of Friendly Societies (RFS) were transferred to Financial Services Authority as at 1 December 2001 and the assets and liabilities transferred to HMT as at 1 April 2002. Prior year comparators have been restated in respect of the balance sheet. However, as no continuing operations fall to HMT there is no impact on the HMT operating cost statement and therefore no analysis is necessary in relation to RFS for the year ended 31 March 2003

#### 4. STAFF NUMBERS AND COSTS

##### 4.1 Analysis of total costs over categories

Staff costs consist of:

	2002-03				2001-02
	Officials	Ministers	Special Advisors	Total	Total
	£000	£000	£000	£000	£000
Wages and salaries	50,701	1,428	588	52,717	47,527
Social Security costs	3,905	141	65	4,111	3,920
Other pension costs	6,987	-	108	7,095	7,141
<b>Subtotal</b>	<b>61,593</b>	<b>1,569</b>	<b>761</b>	<b>63,923</b>	<b>58,588</b>
Inward secondments	2,169	-	-	2,169	2,715
<b>Total costs</b>	<b>63,762</b>	<b>1,569</b>	<b>761</b>	<b>66,092</b>	<b>61,303</b>
Less recoveries (income) in respect of outward secondments	(1,226)	-	-	(1,226)	-
<b>Total net costs</b>	<b>62,536</b>	<b>1,569</b>	<b>761</b>	<b>64,866</b>	<b>61,303</b>
		OGC	HMT	Total	Total
		£000	£000	£000	£000
Wages and salaries		13,301	39,416	52,717	47,527
Social Security costs		1,006	3,105	4,111	3,920
Other pension costs		1,876	5,219	7,095	7,141
<b>Subtotal</b>		<b>16,183</b>	<b>47,740</b>	<b>63,923</b>	<b>58,588</b>
Inward secondments		-	2,169	2,169	2,715
<b>Total</b>		<b>16,183</b>	<b>49,909</b>	<b>66,092</b>	<b>61,303</b>
Less recoveries in respect of outward secondments		-	(1,226)	(1,226)	-
<b>Total net costs</b>		<b>16,183</b>	<b>48,683</b>	<b>64,866</b>	<b>61,303</b>

In addition to the above, £94,000 of staff costs have been charged to capital, additions to IT. The costs of Special Advisors include the Council of Economic Advisors.

Recoveries of costs relating to staff seconded out to other organisations should normally be shown as income to the operating cost statement unless amounts are immaterial where they may be netted-off staff costs. For 2002-03 recoveries of £1,226k are shown as income. Similar treatment in 2001-02 would have resulted in £960k being disclosed as income in that year.

## 4.2 Whole-time equivalents analysed over objectives

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

Objectives 2002-03	2002-03			2001-02
	OGC	HMT	Total	Total
(1) Maintaining a stable macroeconomic framework with low inflation;		105.1	105.1	68.1
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;		235.6	235.6	211.9
(3) Improving the quality and cost effectiveness of public services;	431.0	169.5	600.5	646.9
(4) Increasing the productivity of the economy;		134.8	134.8	136.9
(5) Expanding economic and employment opportunities for all;		94.2	94.2	30.1
(6) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;		97.6	97.6	44.2
(7) Achieving a high standard of regularity, propriety and accountability in public finance;		90.7	90.7	124.2
(8) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;		52.4	52.4	65.6
(9) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.		152.1	152.1	123.1
<b>TOTALS</b>	<b>431.0</b>	<b>1,132.0</b>	<b>1,563.0</b>	<b>1,451.0</b>

## 4.3 Salaries and pension entitlements of HM Treasury ministers and senior officials

The salaries and pension entitlements of the most senior civil servants as a result of their employment by the Treasury, and those of ministers who have a direct influence on managing or controlling the activities of the Treasury, were as shown below. Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances and private office allowances and any other allowance to the extent that it is subject to UK taxation.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£55,118, 2001-02 £51,822) and various allowances to which they are entitled are borne centrally. The arrangement for ministers in the House of Lords is different in that they do not receive a salary rather an additional remuneration which cannot be separated from their ministerial salaries. This total remuneration as well as the allowances to which they are entitled is paid by the Department and therefore is shown in total in the figures in this account.

As the House of Commons and House of Lords (as appropriate) and not the Treasury meet the Exchequer contributions to the cost of pension provision for ministers, ministers' pension details are included on a "for information" basis.

## 4.3 Salaries and pension entitlements of HM Treasury ministers and senior officials (continued)

Name	Age	Ministerial salary received	Real increase in pension at 60	Total accrued pension at age 60 at 31 March 2003	Benefits in kind
	Years	£000	£000	£000	£
<b>Ministers</b>					
Gordon Brown <i>Chancellor of the Exchequer</i>	52	69,861	0 - 2.5	5.0 - 10.0	21,529
Andrew Smith	52	11,643	0 - 2.5	5.0 - 10.0	
Paul Boateng (from 29/5/02) <i>Chief Secretary to the Treasury</i>	51	58,398	0 - 2.5	5.0 - 10.0	7,755
Dawn Primarolo <i>Paymaster General</i>	48	36,240	0 - 2.5	0 - 5.0	4,045
Paul Boateng	51	6,040	See above	See above	
Ruth Kelly (from 29/5/02) <i>Financial Secretary to the Treasury</i>	34	30,246	0 - 2.5	0 - 2.5	5,298
Ruth Kelly	34	4,584	See above	See above	
John Healey (from 29/5/02) <i>Economic Secretary to the Treasury</i>	43	23,070	0 - 2.5	0 - 2.5	3,609
<b>Officials</b>					
Gus O'Donnell <i>Managing Director (to 08-07-02)</i> <i>Permanent Secretary (from 09-07-02)</i>	50	30 - 35 110 - 115	5.0 - 7.5	40 - 45	3,075
Sir Andrew Turnbull <i>Permanent Secretary (to 08-07-02)</i>	58	45-50	7.5 - 10.0	70 - 75	1,160
Sir Robert Culpin <i>Managing Director</i>	55	135-140	2.5 - 5.0	55 - 60	-
Professor Sir Andrew Likierman <i>Managing Director (part-time basis)</i>	59	80 - 85	2.5 - 5.0	15 - 20	-
James Sassoon <i>Managing Director (from 16-11-02)</i>	47	55 - 60	Insufficient service		-
Hilary Douglas <i>Managing Director</i>	52	110 - 115	2.5 - 5.0	35 - 40	-
Jon Cunliffe <i>Managing Director</i>	49	100 - 105	2.5 - 5.0	25 - 30	-
Nicholas Macpherson <i>Managing Director</i>	43	100 - 105	2.0 - 2.5	20 - 25	-
Margaret Exley <i>Non-Executive Director (TMB &amp; Audit Committee)</i>	53	5 - 10	N/A	N/A	-
Chris Swinson <i>Non-Executive Director (Audit Committee)</i>	54	0 - 5	N/A	N/A	-
Mike Williams <i>Chief Executive DMO (to 05/01/03)</i>	55	95 - 100	0 - 2.5	30 - 35	-
Robert Stheeman <i>Chief Executive DMO (from 06/01/03)</i>	43	25 - 30	0 - 2.5	0 - 5	-
Ian Peattie <i>Director of NILO (to 01/07/02)</i>	60	15 - 20	0 - 2.5	30 - 35	-
Peter Gershon <i>Chief Executive OGC</i>	56	195- 200	Not part of scheme		3,963

### 4.3 Salaries and pension entitlements of HM Treasury ministers and senior officials (continued)

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

James Sassoon was until 15 November 2002 a Managing Director of UBS Warburg which, in the normal course of its investment banking business, advised other Government departments on a number of matters. Peter Gershon and Professor Sir Andrew Likierman are on fixed term contracts. Professor Sir Andrew Likierman's contract is due to expire on 31 December 2003.

Robert Stheeman joined the DMO as Chief Executive on 6 January 2003 as successor to Mike Williams who retired on 31 March 2003. In autumn 2003 Sir Robert Culpin, who is retiring, will be replaced by Professor Nicholas Stern.

The Chief Executive of OGC, Peter Gershon, was employed under a fixed term contract expiring on 31 March 2003. This was extended in December 2002 by one year. His contract is now due to expire on 31 March 2004. In the event that the Prime Minister decides, on the advice of the Advisory Committee on Business Appointments, that Mr Gershon should serve a waiting period before he takes up a new appointment after leaving the Civil Service, HM Treasury have approved an agreement whereby they will continue to pay him up to his final salary on a retainer basis for up to one year, with a claw back should his total earnings for the year exceed what they would have been had he remained at the OGC.

### 4.4 Additional ministerial salaries borne by HM Treasury

In addition, the Treasury bears the ministerial salaries of the following, for the year ended 31 March 2003:

Official title	Name	Salaries £000
Prime Minister	Tony Blair	115 - 120
Chief Whip (Commons)	Hilary Armstrong	65 - 70
Deputy Chief Whip (Commons)	Keith Hill	35 - 40
Chief Whip (Lords)	Lord Carter	15 - 20
	Lord Grocott (from 29/5/02)	95 - 100
Deputy Chief Whip (Lords)	Lord McIntosh	60 - 65
Lords in waiting (6 posts)		415 - 420
Government and Assistant Government Whips (14 posts)		315 - 320

#### 4.4.1 Pension entitlements and schemes

##### Civil servants

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

- (a) Classic Scheme – Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.
- (b) Premium Scheme – Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking gainful employment, service is enhanced to what they would have accrued at age 60.
- (c) Classic Plus Scheme – This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium and classic plus are increased in line with the Retail Prices Index.

- (d) Partnership Pension Account – this is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service cover and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

The PCSPS is an unfunded multi-employer defined benefit scheme although the Treasury's share of the underlying assets and liabilities cannot be identified. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office Civil Superannuation. ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2002-03, employers' contributions of £7,111,345.47 were payable to the PCSPS (2001-02 £6,839,242.30) at one of four rates in the range 12 to 18.5% of pensionable pay based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed very

four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

### Ministers

Pension benefits to Ministers are provided by the Ministerial Pension Scheme (MPS) which is part of the Parliamentary Contributory Pension Fund (PCPF) for Members of Parliament. Those Ministers who are Members of Parliament are also entitled to an MP's pension under PCPF. The arrangements for ministers provide benefits on a 'final salary' basis with either 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with other members of the PCPF, can opt to increase their actual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution.)

Benefits for Ministers are payable at the same time as MP's benefits become payable under PCPF or, for those who are not MPs, on retirement from Ministerial office on or after age 65. Members pay contributions of 6 per cent of their ministerial salary if they have opted for the 1/50th accrual rate, and 9 per cent if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the House of Lords and the House of Commons on behalf of the Exchequer representing the balance of cost. This is currently 24% of the Ministerial salary.

In the event of retirement because of serious ill health, the Ministerial pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Minister's pension. On death in service, the Ministerial arrangements provide for a lump sum gratuity of four times Ministerial salary. Pensions increase in payment in line with changes in the Retail Prices Index. On retirement, it is possible to commute part of the pension to a lump sum.

## 5. OTHER ADMINISTRATION COSTS

	OGC	2002-03 HMT	Total	2001-02 Total
	£000	£000	£000	£000
<b>Rentals under operating leases</b>				
Hire of plant and machinery	111	145	256	272
Land and buildings	3,074	4,942	8,016	5,374
	<b>3,185</b>	<b>5,087</b>	<b>8,272</b>	<b>5,646</b>
<b>Interest charges</b>				
On-balance sheet PFI contracts (note 14.2)	-	6,783	6,783	-
<b>PFI service charges</b>				
Element of on-balance sheet contracts (note 14.2)	-	3,406	3,406	-
<b>Research and development expenditure</b>	<b>282</b>	-	<b>282</b>	<b>193</b>
<b>Non cash items</b>				
Depreciation	1,524	3,887	5,411	5,275
Indexation of liability on PFI deal	-	2,350	2,350	-
Loss/(gain) on disposal of fixed assets	661	17	678	-
Loss on revaluation of building (note 14.2)	-	69,400	69,400	14
Loss on revaluation of fixed assets	34	52	86	775
Loss on change in capitalisation threshold	-	3,112	3,112	-
Auditor's remuneration	55	98	153	178
Cost of capital	391	(1,011)	(620)	2,074
Provisions:				
Provided in year	4,841	1,137	5,978	1,614
Unwinding of discount on provision	89	84	173	237
	<b>7,595</b>	<b>79,126</b>	<b>86,721</b>	<b>10,167</b>
<b>Other expenditure</b>	<b>24,447</b>	<b>27,395</b>	<b>51,842</b>	<b>46,169</b>
<b>Total</b>	<b>35,509</b>	<b>121,797</b>	<b>157,306</b>	<b>62,175</b>

## 6. NET PROGRAMME COSTS

	2002-03	2001-02
	£000	£000
<b>Request for Resources 1: HM Treasury</b>		
Current grants	1,841	1,074
Insurance services	-	11,442
Cost of capital	108,041	108,103
Loss on revaluation of investments	417	1,151
Other current expenditure	11,000	7,690
	<b>121,299</b>	<b>129,460</b>
<b>Request for Resources 2: UK Coinage</b>		
Cost of capital	5,167	7,023
Other current expenditure	29,282	33,156
	<b>34,449</b>	<b>40,179</b>
<b>Non-supply – Bank of England services (note 11.2)</b>	11,179	12,171
<b>Total HMT programme costs</b>	<b>166,927</b>	<b>181,810</b>
<b>Request for Resources 3: OGC</b>		
Other current expenditure	1,588	13,132
Whitehall Systems running costs	1,874	2,895
Whitehall Systems depreciation	1,305	1,293
Cost of capital	1,742	1,450
Release of surplus provision re vacant estate	(1,772)	(39,610)
Unwinding of discount on provisions	1,926	4,323
<b>Total OGC programme costs</b>	<b>6,663</b>	<b>(16,517)</b>
<b>Sub total programme costs</b>	<b>173,590</b>	<b>165,293</b>
<b>Less programme income</b>		
Request for Resources 1 – HM Treasury (note 7)	(75,018)	(82,906)
Request for Resources 2 – UK Coinage (note 7)	(160)	(258)
Request for Resources 3 – OGC (note 7)	(4,287)	(17,985)
	<b>(79,465)</b>	<b>(101,149)</b>
<b>Net Programme Costs</b>	<b>94,125</b>	<b>64,144</b>

## 6.1 Insurance services – discontinued operation

Up to November 2001 HMT made payments to the Financial Services Authority (FSA) in respect of revaluation of the insurance sector. With effect from November 2001 the FSA assumed its full powers under the Financial Services and Markets Act 2000 and now meets its expenditure of this nature direct from fees recovered from the insurance sector.

## 7. INCOME AND APPROPRIATIONS IN AID

Operating income analysed by activities:

	2002-03			2001-02
	Appropriated in Aid	Payable to Consolidated Fund	Income included in OCS	Income included in OCS
	£000	£000	£000	£000
<b>Administration income</b>				
Central Treasury Activities	<b>3,157</b>	<b>2,953</b>	<b>6,110</b>	<b>4,607</b>
<b>Programme income</b>				
<b>Request for Resources 1: HM Treasury</b>				
Insurance services (note 7.1)	-	-	-	12,033
Pool Re insurance premiums (note 7.2)	-	6,340	6,340	6,777
Troika insurance premiums (note 15.2)	-	27,918	27,918	14,620
Bank of England dividend	-	34,300	34,300	42,396
Profit on disposal of investments	-	90	90	-
Other current programme income	4,900	268	5,168	5,544
Other dividends and interest	-	1,202	1,202	1,536
	<b>4,900</b>	<b>70,118</b>	<b>75,018</b>	<b>82,906</b>
<b>Request for Resources 2: UK Coinage</b>				
Sale of coinage scrap metal	-	160	160	258
<b>Total programme income HMT</b>	<b>4,900</b>	<b>70,278</b>	<b>75,178</b>	<b>83,164</b>
<b>Total operating income HMT</b>	<b>8,057</b>	<b>73,231</b>	<b>81,288</b>	<b>87,771</b>
<b>OGC</b>				
<b>Administration income</b>				
Allowable within admin. cost limit	15,069	-	15,069	14,029
Other income	-	296	296	615
<b>Total administration income OGC</b>	<b>15,069</b>	<b>296</b>	<b>15,365</b>	<b>14,644</b>
<b>Programme income</b>				
Management and disposal of vacant property	225	-	225	13,445
Whitehall Systems	3,090	-	3,090	4,450
Other income	-	972	972	-
<b>Total programme income OGC</b>	<b>3,315</b>	<b>972</b>	<b>4,287</b>	<b>17,985</b>
<b>Total operating income OGC</b>	<b>18,384</b>	<b>1,268</b>	<b>19,652</b>	<b>32,629</b>
<b>Department total operating income</b>	<b>26,441</b>	<b>74,499</b>	<b>100,940</b>	<b>120,400</b>

### 7.1 Insurance services – discontinued operation

Since November 2001 all income in respect of insurance services has been collectable directly by the Financial Services Authority under the Financial Services and Markets Act 2000.

### 7.2 Pool Re

Income from Pool Re arises under The Reinsurance (Acts of Terrorism) Act 1993, under which the Treasury provides reinsurance for terrorist attacks on commercial or industrial property. Pool Re pays a premium to the Treasury, subject to a threshold level of funds.

## 8. ADMINISTRATION COST LIMITS

	2002-03		2001-02	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for Resources 1 (HMT Gross Limit)	90,634	93,519	70,112	75,483
Request for Resources 2 (HMT Gross Limit)	-	-	-	-
Request for Resources 3 (OGC Gross Limit)	30,070	33,500	28,986	34,001
	<u>120,704</u>	<u>127,019</u>	<u>99,098</u>	<u>109,484</u>

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

## 9. RECONCILIATION OF NET OPERATING COSTS TO NET RESOURCE OUTTURN

	2002-03			2001-02
	OGC	HMT	Total	Total
	£000	£000	£000	£000
<b>Net Operating Costs</b>	38,703	257,345	296,048	168,371
Less: Non-Supply expenditure in resource budget	-	(11,179)	(11,179)	(12,171)
Add: Operating income not appropriated-in-aid	1,268	73,232	74,500	78,873
<b>Net Resource Outturn</b>	<u>39,971</u>	<u>319,398</u>	<u>359,369</u>	<u>235,073</u>

## 10. ANALYSIS OF NET OPERATING COST

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

	2002-03	2001-02
	Outturn	Outturn
	£000	£000
<b>Spending Body</b>		
Core Department	256,592	171,861
Office of Government Commerce	38,703	(3,864)
Parliamentary Bodies	753	374
	<u>296,048</u>	<u>168,371</u>

## 11. ANALYSIS OF NET RESOURCE OUTTURN AND NET OPERATING COST BY FUNCTION

2002-03								Net Total Outturn compared with
	Admin	Other Current	Current Grant	Gross resource expend	A-in-A	Net Total Outturn	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Request for Resources 1:</b>								
<b>HM Treasury</b>								
<i>Departmental Expenditure Limit</i>								
Core Treasury	85,129	7,016	-	92,145	(5,607)	86,538	87,120	582
DMO	7,777	2,019	-	9,796	(2,441)	7,355	5,847	(1,508)
Parliamentary bodies	-	-	753	753	-	753	753	-
Honours and Dignities	-	1,022	-	1,022	(9)	1,013	1,016	3
Euro preparations	-	944	-	944	-	944	-	(944)
Statistics Commission	-	-	1,088	1,088	-	1,088	1,350	262
<i>Annually Managed Expenditure</i>								
Core Treasury	77,543	108,458	-	186,001	-	186,001	207,353	21,352
DMO	1,257	-	-	1,257	-	1,257	636	(621)
	<b>171,706</b>	<b>119,459</b>	<b>1,841</b>	<b>293,006</b>	<b>(8,057)</b>	<b>284,949</b>	<b>304,075</b>	<b>19,126</b>
<b>Request for Resources 2:</b>								
<b>UK Coinage</b>								
Cost of capital	-	5,167	-	5,167	-	5,167	6,366	1,199
Other current expenditure	-	29,282	-	29,282	-	29,282	32,000	2,718
	-	<b>34,449</b>	-	<b>34,449</b>	-	<b>34,449</b>	<b>38,366</b>	<b>3,917</b>
<b>HMT (Supply)</b>	<b>171,706</b>	<b>153,908</b>	<b>1,841</b>	<b>327,455</b>	<b>(8,057)</b>	<b>319,398</b>	<b>342,441</b>	<b>23,043</b>
<b>Request for Resources 3:</b>								
<b>OGC</b>								
Administration	51,692	-	-	51,692	(15,069)	36,623	37,629	1,006
Programme activity	-	6,663	-	6,663	(3,315)	3,348	8,609	5,261
<b>OGC</b>	<b>51,692</b>	<b>6,663</b>	<b>-</b>	<b>58,355</b>	<b>(18,384)</b>	<b>39,971</b>	<b>46,238</b>	<b>6,267</b>
<b>Resource Outturn</b>	<b>223,398</b>	<b>160,571</b>	<b>1,841</b>	<b>385,810</b>	<b>(26,441)</b>	<b>359,369</b>	<b>388,679</b>	<b>29,310</b>
Bank of England Services (HMT non-supply expenditure – note 11.2)						11,179		
Income payable to the Consolidated Fund						(74,500)		
<b>Net Operating Cost</b>						<b>296,048</b>		

## 11.1 Request for Resources

These functions correspond to the disaggregation of Requests for Resources for control purposes and Parliamentary approval. They do not correspond to Departmental objectives, which reflect a disaggregation of Departmental aims for management activities. (For an analysis of Appropriations-in-Aid see Note 7.)

## 11.2 Non-supply expenditure

This relates to provision for payment to the Bank of England to cover costs of banknote production and issue. These costs are deducted from the profits of the Bank's Issue Department which are paid over to the National Loans Fund. In addition payments to the Bank on debt management are funded from the NLF, and the costs the Bank incurs in managing the Exchange Equalisation Account are withdrawn from the account.

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

	2002-03			
	Capital expenditure	PFI contract	A-in-A	Net total
	£000	£000	£000	£000
Request for Resources 1	3,022	141,000	(33)	143,989
Request for Resources 2	-	-	-	-
Request for Resources 3	5,567	-	(3,505)	2,062
<b>Total</b>	<b>8,589</b>	<b>141,000</b>	<b>(3,538)</b>	<b>146,051</b>

## 13. INTANGIBLE FIXED ASSETS

	OGC	HMT	Total
	£000	£000	£000
<b>Cost/valuation</b>			
At 1 April 2002	1,626	1,983	3,609
Additions	212	962	1,174
Change in threshold (to OCS-note 2)	-	(107)	(107)
Disposals	(1)	-	(1)
Loss on revaluation charged to OCS	(85)	(157)	(242)
<b>At 31 March 2003</b>	<b>1,752</b>	<b>2,681</b>	<b>4,433</b>
<b>Accumulated depreciation</b>			
At 1 April 2002	1,170	952	2,122
Change in threshold (to OCS-note 2)	-	(67)	(67)
Charge in year	290	765	1,055
Released on disposal	(1)	-	(1)
Loss on revaluation charged to OCS	(51)	(160)	(211)
<b>At 31 March 2003</b>	<b>1,408</b>	<b>1,490</b>	<b>2,898</b>
Net book value 1 April 2002	456	1,031	1,487
<b>Net book value 31 March 2003</b>	<b>344</b>	<b>1,191</b>	<b>1,535</b>

## 14. TANGIBLE FIXED ASSETS

Summary	OGC	HMT	Total
	£000	£000	£000
<b>Cost/valuation</b>			
At 1 April 2002	42,903	48,599	91,502
Additions	5,355	143,060	148,415
Disposal	(3,172)	(1,741)	(4,913)
Change in threshold (to OCS)	-	(9,247)	(9,247)
Revaluation	2,510	2,680	5,190
Loss on revaluation charged to OCS	-	(69,880)	(69,880)
<b>At 31 March 2003</b>	<b>47,596</b>	<b>113,471</b>	<b>161,067</b>
<b>Accumulated depreciation</b>			
At 1 April 2002	23,918	10,333	34,251
Charge in year	2,540	3,121	5,661
Released on disposal	(910)	(1,302)	(2,212)
Change in threshold (to OCS)	-	(6,174)	(6,174)
Revaluation	365	-	365
Loss on revaluation charged to OCS	-	(427)	(427)
<b>At 31 March 2003</b>	<b>25,913</b>	<b>5,551</b>	<b>31,464</b>
Net book value 1 April 2002	18,985	38,266	57,251
<b>Net book value 31 March 2003</b>	<b>21,683</b>	<b>107,920</b>	<b>129,603</b>

## 14.1 HMT tangible fixed assets

	Land and Buildings	Leasehold Improvement	Furniture & Equipment	IT Equipment	Library & antiques	Total
	£000	£000	£000	£000	£000	£000
<b>Cost/valuation</b>						
At 1 April 2002	29,370	1,425	3,402	12,569	1,833	48,599
Additions	141,000	65	-	1,995	-	143,060
Disposal	-	(315)	-	(1,266)	(160)	(1,741)
Change in threshold (to OCS)	-	(19)	(3,366)	(5,796)	(66)	(9,247)
Revaluation	2,680	-	-	-	-	2,680
Loss on revaluation charged to OCS	(69,400)	(14)	(2)	(464)	-	(69,880)
<b>At 31 March 2003</b>	<b>103,650</b>	<b>1,142</b>	<b>34</b>	<b>7,038</b>	<b>1,607</b>	<b>113,471</b>
<b>Accumulated depreciation</b>						
At 1 April 2002	-	520	2,097	7,678	38	10,333
Charge in year	955	77	5	2,084	-	3,121
Released on disposal	-	(69)	-	(1,233)	-	(1,302)
Change in threshold (to OCS)	-	(13)	(2,074)	(4,049)	(38)	(6,174)
Revaluation	-	-	-	-	-	-
Loss on revaluation charged to OCS	-	(7)	(2)	(418)	-	(427)
<b>At 31 March 2003</b>	<b>955</b>	<b>508</b>	<b>26</b>	<b>4,062</b>	<b>-</b>	<b>5,551</b>
Net book value 1 April 2002	29,370	905	1,305	4,891	1,795	38,266
<b>Net book value 31 March 2003</b>	<b>102,695</b>	<b>634</b>	<b>8</b>	<b>2,976</b>	<b>1,607</b>	<b>107,920</b>

## 14.2 HMT tangible fixed assets

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

#### The contract

HM Treasury has entered into a 35 year PFI contract with Exchequer Partnership (EP) in respect of the core Treasury's former headquarters building, Government Offices Great George Street ("GOGGS"). EP is a consortium consisting of Bovis Lend Lease Holdings Ltd, Chesterton International PLC and Stanhope PLC.

The building is now divided into two parts: the west end, which is now known as 1 Horse Guards Road, and the east end, facing Parliament Street. EP completed the refurbishment of 1 Horse Guards Road in July 2002. In exchange for the refurbishment and the ongoing provision of serviced office accommodation at 1 Horse Guards Road, the Treasury pay EP an annual unitary payment of £14.037 million at 1999 prices for the 35 year term of the contract (subject to deductions for non-availability and underperformance), starting in August 2002.

The east end of the building was in operational use until vacated by the Treasury in August 2002. A similar agreement has been reached with HM Customs and Excise and the Inland Revenue for the refurbishment and subsequent provision of serviced office accommodation to those departments in the east end. Refurbishment work started in December 2002 and is due to be completed by January 2005.

The decision to refurbish GOGGS followed a review of the available alternative locations, and confirmation of ministers' decision to retain the building as Treasury's long-term home. The contract with EP was therefore structured so as to retain use of the site for the Treasury's accommodation whilst passing to them the risks of planning, construction, on-going maintenance of the fabric, plant & machinery and delivering serviced accommodation to set standards specified in advance. The Treasury sought to ensure that EP's bid represented good value for money by detailed evaluation of the technical and financial aspects, benchmarking against the Public Sector Comparator and market rentals at the time. A further element of competition was introduced through tendering the external project funding.

#### Valuation

As at 31 March 2002, the GOGGS land asset (both west and east ends) was recognised on the HMT balance sheet at £29.37 million based on a valuation by CB Hillier Parker on 17 January 2000 plus subsequent indexation adjustments. The buildings were considered to be in such need of repair prior to their refurbishment that they were valued at nil. The land at the east end will continue to be recognised on the Treasury's balance sheet whilst refurbishment takes place and pending the agreement of the accounting treatment to be adopted for the east end by HM Customs and Excise and the Inland Revenue. Its net book value (£14.15 million at 31 March 2003) continues to be based on the CB Hillier Parker valuation.

1 Horse Guards Road was valued as at 31 July 2002 by DTZ Tie Leung at value of £89.5 million, of which £71.6 million is considered attributable to the building and £17.9 million to the land. The land and building will be professionally revalued at 5 yearly intervals (with interim annual indexations) and the building will be depreciated over its estimated useful economic life (currently assessed as 50 years). Depreciation of the building during 2002-03 is based on 8 months of the year in recognition that it came onto the balance sheet part way through the year.

#### Impact on 2002/3 resource accounts

The refurbished 1 Horse Guards Road building has been capitalised as an addition to tangible fixed assets in July 2002, at the cost of refurbishment incurred by EP of £141 million. A creditor has been recognised at fair value of £141 million, which will be paid off during the period of the contract on an annuity basis. The creditor as at 31 March 2003 was calculated as follows:

**14.2 HMT tangible fixed assets (continued)**

	<u>£'000</u>	
Fair value of the building	141,000	
Uplift for inflation on future unitary payments	2,350	(charged to OCS)
Principal repaid during 2002/03	(734)	
	<u><b>142,616</b></u>	
	<u>£'000</u>	
Creditor payable within 12 months	1,088	
Creditor payable in more than 12 months	141,528	
	<u><b>142,616</b></u>	

The difference of £69.4 m between the recent valuation of the One Horse Guards Road building (£71.6m) and the opening fair value of the creditor under the PFI deal (£141m) has been charged to the operating cost statement for 2002-03 as an exceptional item. This difference arises because the valuation reflects rental potential in a depressed property market, whereas the refurbishment cost reflects a policy decision to keep the Treasury's location at the centre of Government, and to modernise and maintain an important Grade II\* listed building with long term heritage value whilst providing good quality flexible, modern office space.

As explained above, the actual costs incurred by the Treasury are wrapped up in an annual unitary payment to EP of £14.037m at 1999 prices. The unitary payment made during 2002-03 was for a part year and totalled £10,923k, made up as follows:

	<u>£'000</u>
Interest charges	6,783
Services	3,406
Charged to operating costs statement	10,189
Repayment of principal on creditor	734
<b>Total unitary payment</b>	<u><b>10,923</b></u>

The unitary payment finances the cost of the refurbishment, maintenance, lifecycle replacement costs and ongoing services over the 35 year term. The contract requires that the building is maintained throughout the period of the contract in its condition as at the beginning of the contract at no additional cost to the Treasury. During the period of the contract EP bear the risks of latent defects, building maintenance requirements and the costs of replacing capital items e.g. plant.

**14.3 OGC tangible fixed assets**

	Land and Buildings	Plant & Machinery	Furniture & Equipment	IT Equipment	Whitehall Systems	Total
	£000	£000	£000	£000	£000	£000
<b>Cost/valuation</b>						
At 1 April 2002	3,254	227	1,214	3,821	34,387	42,903
Additions	4,015	33	630	677	-	5,355
Disposal	(2,281)	(26)	(262)	(603)	-	(3,172)
Revaluation	2,219	6	15	(73)	343	2,510
<b>At 31 March 2003</b>	<b>7,207</b>	<b>240</b>	<b>1,597</b>	<b>3,822</b>	<b>34,730</b>	<b>47,596</b>
<b>Accumulated depreciation</b>						
At 1 April 2002	479	64	405	2,557	20,413	23,918
Charge in year	366	42	148	679	1,305	2,540
Released on disposal	(301)	(13)	(84)	(512)	-	(910)
Revaluation	117	3	12	29	204	365
<b>At 31 March 2003</b>	<b>661</b>	<b>96</b>	<b>481</b>	<b>2,753</b>	<b>21,922</b>	<b>25,913</b>
Net book value 1 April 2002	2,775	163	809	1,264	13,974	18,985
<b>Net book value 31 March 2003</b>	<b>6,546</b>	<b>144</b>	<b>1,116</b>	<b>1,069</b>	<b>12,808</b>	<b>21,683</b>

Thistle Street, Edinburgh was valued in January 2003 on the basis of existing use value by independent surveyors, Gerald Eve, a member of RICS, in accordance with the RICS Appraisal and Valuation Manual.

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

**15. INVESTMENTS****15.1 FIXED INVESTMENTS**

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

	At 1 April 2002	Additions	Disposals	Revaluation	At 31 March 2003
	£000	£000	£000	£000	£000
<b>OGC</b>					
OGCbuying.solutions	350	-	-	-	350
<b>HMT</b>					
Bank of England	1,526,000	-	-	(20,000)	1,506,000
Royal Mint	5,500	-	-	-	5,500
Partnerships UK Shares	3,326	-	-	719	4,045
Partnerships UK Loan Stock	15,594	-	-	-	15,594
Railtrack Bonds	1,210	-	(1,210)	-	-
HMT Total	1,551,630	-	(1,210)	(19,281)	1,531,139
<b>Department total</b>	<b>1,551,980</b>	<b>-</b>	<b>(1,210)</b>	<b>(19,281)</b>	<b>1,531,489</b>

### 15.1(a) Bank of England

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

HM Treasury's investment in the Bank of England is valued at the Bank's audited net assets as at 28 February 2003. Extracts from the Banking Department accounts of the Bank of England for the year ended 28 February 2003 are shown in the table below; for further information, refer to the full Bank of England Report and Accounts.

#### Extracts from the Banking Department accounts

*For the year ended 28 February*

	2003	2002
	£ million	£ million
<b>Extracts from the profit and loss account</b>		
Profit before taxation	89	103
Payable to HM Treasury (see note 7 of the HMT accounts)	(34)	(42)
Taxation	(21)	(19)
<b>Retained profit for the year</b>	<b>34</b>	<b>42</b>
<b>Extracts from the balance sheet</b>		
<b>Assets</b>		
Loans and advances to banks, the money market and customers	6,747	5,293
Debt securities	8,713	6,517
Other assets	1,364	1,337
<b>Total assets</b>	<b>16,824</b>	<b>13,147</b>
<b>Liabilities</b>		
Deposits by central banks, other banks and building societies	7,682	5,937
Debt securities in issue	5,859	3,962
Other liabilities	1,777	1,722
<b>Total liabilities</b>	<b>15,318</b>	<b>11,621</b>
<b>Net assets and shareholders funds</b>	<b>1,506</b>	<b>1,526</b>

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 28 February 2003 totalled £33.87 billion (2002: £29.39 billion). The notes are a liability of the Bank, which must be backed by an equivalent value of securities. Total securities held by the Issue Department at 28 February 2003 were £33.87 billion (2002: £29.39 billion), which included the Ways and Means Advance to the National Loans Fund of £13.37 billion (2002: £13.37 billion) and financial instruments issued by other banks.

The profit of the Issue Department for the year ended 28 February 2003 was £1.24 billion (2002: £1.41 billion). Each year's profit is paid over to the National Loans Fund. The profit represents the interest on the securities held by the Issue Department less the costs of production of bank notes and other expenses. The Issue Department's liabilities (bank notes in circulation) are interest free.

**15.1(b) Royal Mint**

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

No dividend has been paid for either of the last two years.

	<b>2003</b>	<b>2002</b>
	£000	£000
<b>Extracts from the profit and loss account</b>		
Turnover	92,021	79,672
Operating profit/(loss) before exceptional costs	1,285	(6,473)
Exceptional costs	900	(12,000)
Net interest payable	(828)	(828)
<b>Retained loss for the year</b>	<b>1,357</b>	<b>(19,301)</b>
<b>Extracts from the balance sheet</b>		
Fixed assets	40,675	42,978
Current assets	60,956	62,233
Liabilities due within one year	(38,353)	(35,697)
Liabilities due after more than one year	(15,097)	(23,510)
<b>Net assets and shareholders funds</b>	<b>48,181</b>	<b>46,004</b>

For further information, refer to the full Royal Mint Report and Accounts.

**15.1(c) Partnerships UK**

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

As at 31 March 2003, the equity interest has been revalued to the net asset value per share of £0.91 compared to the value of £0.74 per share as at 31 March 2002. The Treasury's holding of PUK Loan Stock is shown at nominal value. No dividend was declared on the shares, but interest was received on the loan stock.

**15.1(d) Railtrack Bonds**

The Administrative Receivers were appointed on 7 October 2001 and discharged on 3 October 2002. The Treasury's investment in Railtrack as at 31 March 2002 was £694k of 9.125% Bonds due in 2006 and £516k of 9.625% Bonds due in 2016. These were repaid on 10 October 2002 by Railtrack plc immediately after its acquisition by Network Rail Limited, following its discharge from administration and in accordance with the terms of a collective agreement with the holders of all Railtrack plc bonds relating to the restructuring of its finances. The redemption price included the principal value as reflected in HMT's accounts plus accrued interest and yielded a surplus upon disposal of £122k.

**15.2 Current Investments**

	Residual Shares	Bonus Shares	Pool Shares Other Depts	Troika Insurance Company Limited	Total
	£000	£000	£000	£000	£000
At 1 April 2002	14,520	56	1,131	5,000	20,707
Disposals	(12,915)	(31)	(8)	-	(12,954)
Revaluation	(606)	18	(12)	-	(600)
Impairment	(342)	(2)	(792)	-	(1,136)
<b>At 31 March 2003</b>	<b>657</b>	<b>41</b>	<b>319</b>	<b>5,000</b>	<b>6,017</b>

The Department holds residual shares from past privatisations as current assets. The shares are valued at market value as at 31 March 2003. The investment in Powergen plc was disposed of on 1 July 2002, the resultant loss of £93k being charged to the operating cost statement. The investment in Innogy plc was disposed of on 27 May 2002 the resultant profit of £39k being charged to the operating cost statement.

Registrars of previous share issues hold shares for issue in cases where bonus shares were due but not issued. The registrars also hold cash in respect of the dividends which these shares have earned since their issue. Past dividends are issued as bonus shares are claimed. The shares are valued at market value as the 31 March 2003.

Pool shares previously held by other Departments have been transferred to the Treasury for disposal. They are valued at market value at the 31 March 2003.

**15.2(a) Troika Insurance Company Limited**

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

The Treasury provides reinsurance for 100% of Troika's insured risks. This gives rise to a material but unquantifiable contingent liability of the Treasury as from 24th September 2001, as referred to in note 26. Following a decision by the European Union that such cover is now reasonably available commercially, this scheme ceased with effect from 1 November 2002. Whilst no claims are foreseen a contingent liability is still recognised up to January 2004, when Troika will be wound up.

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

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

	2002-03			2001-02
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Increase / (decrease) in stock	(15)	19	4	(170)
Increase / (decrease) in debtors	(395)	(19,947)	(20,342)	(219,745)
Intra departmental consolidation adjustment	(505)	505	-	-
(Increase) / decrease in creditors (excluding Consolidated Fund creditors)	773	1,678	2,451	(8,419)
<b>Total movement (schedule 4)</b>	<b>(142)</b>	<b>(17,745)</b>	<b>(17,887)</b>	<b>(228,334)</b>
<b>Less movements not related to supply:</b>				
Increase in A-in-A debtor	2,921	16,192	19,113	
Increase in PFI creditor	-	(140,266)	(140,266)	
Transitional adjustment	271	3,222	3,493	
<b>Supply financed movement (schedule 1)</b>	<b>3,050</b>	<b>(138,597)</b>	<b>(135,547)</b>	

**17. SURPLUS FREEHOLD PROPERTY**

	£000
At 1 April 2002	75,831
Additions	-
Disposals	(74,088)
Revaluation	1,657
<b>At 31 March 2003</b>	<b>3,400</b>

The properties were independently valued where they had not been so previously valued or where significant changes had taken place since the last independent valuation. In other cases the values were based on sale prices. Independent valuations were assessed at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. During the year OGC successfully negotiated the disposal of three surplus freehold properties at Monck Street, Burtonwood and Brockley Hill. The disposal of an asset at less than market rate, reported in the accounts for 2001-02, was also completed satisfactorily leaving a portfolio of two properties on which negotiations are progressing.

**18. STOCKS**

	2003			2002
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Coinage scrap metal (Non-cash)	-	101	101	120
Insignia	-	1,756	1,756	1,718
Fuel Oil	103	-	103	118
<b>Total</b>	<b>103</b>	<b>1,857</b>	<b>1,960</b>	<b>1,956</b>

## 19. DEBTORS

	2003			2002
	OGC	HMT	Total	Total
	£000	£000	£000	£000
<b>Amounts falling due within 1 year</b>				
Taxation and social security	225	1,742	1,967	1,731
Trade debtors	4,753	1,646	6,399	3,591
Deposits and advances	89	454	543	3,346
Other debtors	312	5,308	5,620	6,245
Prepayments and accrued income	4,313	42,972	47,285	62,343
Overpayment recoverable from Consolidated Fund	-	4,344	4,344	-
Prefunding for premature retirements	208	158	366	458
	<b>9,900</b>	<b>56,624</b>	<b>66,524</b>	<b>77,714</b>
<b>Amounts falling due after more than 1 year</b>				
Debtors	-	8,037	8,037	6,435
Prepayments and accrued income	-	-	-	2,588
Prefunding for premature retirements	236	150	386	712
	<b>236</b>	<b>8,187</b>	<b>8,423</b>	<b>9,735</b>
<b>Total</b>	<b>10,136</b>	<b>64,811</b>	<b>74,947</b>	<b>87,449</b>

Included within debtors is £53,947k (2002: £70,071k) that will be due to the Consolidated Fund once the debts are collected.

## 20. CASH AT BANK AND IN HAND

	2003			2002
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Balance at 1 April	54,846	19,586	74,432	35,638
Funds held re prior year Supply not previously recognised	1,289	-	1,289	-
Net cash inflow/(outflow)	34,509	(7,748)	26,761	38,794
<b>Balance at 31 March</b>	<b>90,644</b>	<b>11,838</b>	<b>102,482</b>	<b>74,432</b>

HM Paymaster General provides a current account banking service, whilst some deposits are held at the Bank of England. The following balances were held at 31 March 2003:

	2003			2002
	OGC	HMT	Total	Total
	£000	£000	£000	£000
Office of HM Paymaster General	61,326	11,230	72,556	73,861
Held in Paymaster by HMT for OGC	1,289	-	1,289	-
Bank of England	-	608	608	571
Held by Solicitors for OGC	28,027	-	28,027	-
Cash in hand	2	-	2	-
<b>Balance at 31 March</b>	<b>90,644</b>	<b>11,838</b>	<b>102,482</b>	<b>74,432</b>

The cash held by solicitors on behalf of OGC is the sale proceeds for the disposal of Brockley Hill, which completed too late on 31 March for the cash to pass to OGC's Paymaster account. The cash transfer was effected on 1 April 2003.

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

	<b>2003</b>	<b>2002</b>
	Total	Total
	£000	£000
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for Supply but not spent at year end	9,161	59,837
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	74,112	14,595
Other amounts due to be paid to the Consolidated Fund	19,209	-
<b>Total</b>	<b>102,482</b>	<b>74,432</b>

**21. CREDITORS: amounts falling due within one year**

	<b>OGC</b>	<b>HMT</b>	<b>Total</b>	<b>2002</b>
	£000	£000	£000	Total
	£000	£000	£000	£000
PFI contract-principal repayable	-	1,088	1,088	-
Trade creditors	245	7,718	7,963	3,443
Other creditors	15,015	6,371	21,386	6,594
Accruals and deferred income	4,762	7,996	12,758	19,813
Amounts due to the Consolidated Fund	41,431	119,342	160,773	138,606
<b>Total</b>	<b>61,453</b>	<b>142,515</b>	<b>203,968</b>	<b>168,456</b>

	<b>2003</b>	<b>2002</b>
	Total	Total
	£000	£000
The total due to the Consolidated Fund comprises:		
Amounts issued from the Consolidated Fund for Supply but not spent at year end	9,161	59,837
Consolidated Fund extra receipts received and receivable	132,173	78,769
Other amounts due to be paid to the Consolidated Fund	19,439	-
<b>Total</b>	<b>160,773</b>	<b>138,606</b>

The amount due for Consolidated Fund extra receipts and receivables includes £7,940k in relation to amounts not expected to be received for more than one year.

<b>Amounts falling due after more than one year</b>	<b>2003</b>	<b>2002</b>
	OGC	Total
	£000	£000
PFI contract (note 14.2)	-	141,528
Bond from sub-tenants	-	268
<b>Total</b>	<b>-</b>	<b>141,796</b>

**22. PROVISIONS FOR LIABILITIES AND CHARGES**

	Surplus leasehold property	Specific dilapidations and legal costs	Early retirement & pension commitments	Total
	£000	£000	£000	£000
<b>HMT</b>				
Balance at 1 April 2002			2,415	2,415
Provision utilised in year			(1,113)	(1,113)
Transfer from/(to) operating cost statement			1,137	1,137
Unwinding of discount			84	84
<b>At 31 March 2003</b>			<b>2,523</b>	<b>2,523</b>
<b>OGC</b>				
Balance at 1 April 2002	39,659	4,336	1,980	45,975
Provision utilised in year	(4,577)	(2,516)	(885)	(7,978)
Transfer to creditors	(14,093)	(900)	-	(14,993)
Transfer from/(to) operating cost statement	(1,772)	11	4,841	3,080
Unwinding of discount	1,926	-	89	2,015
<b>At 31 March 2003</b>	<b>21,143</b>	<b>931</b>	<b>6,025</b>	<b>28,099</b>
<b>Department total at 31 March 2003</b>	<b>21,143</b>	<b>931</b>	<b>8,548</b>	<b>30,622</b>

Maturity analysis of provisions: amounts estimated to fall due

	OGC	HMT	Total
	£000	£000	£000
Within one year	7,121	973	8,094
Between one and two years	2,351	486	2,837
Between two and five years	7,365	896	8,261
After five years	11,262	168	11,430
	<b>28,099</b>	<b>2,523</b>	<b>30,622</b>

**Early retirement & pension commitments**

See statement of accounting policies – note 1.13

**Surplus leasehold property**

The surplus leasehold property provision includes the net present value of future lease payments on vacant property, together with estimates of any dilapidations due at the lease end.

**Specific dilapidations and legal costs**

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

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

	2002-03			2001-02
	OGC	HMT	Total	Total
	£000	£000	£000	£000
<b>Net operating cost for the year (Schedule 2)</b>	(38,703)	(257,345)	(296,048)	(168,371)
Income not appropriated in aid payable to the Consolidated Fund	(74,112)	(87,803)	(161,915)	(78,922)
	<b>(112,815)</b>	<b>(345,148)</b>	<b>(457,963)</b>	<b>(247,293)</b>
Parliamentary Funding drawn down	50,000	133,193	183,193	154,684
Parliamentary Funding brought forward	-	251	251	15,486
Transitional adjustment re: implementation of resource-based supply	(1,518)	(7,082)	(8,600)	5,443
Transfer of General Fund of realised element of revaluation reserve (note 24)	51,053	9,308	60,361	24,101
Consolidated Fund Creditor for cash unspent	(7,076)	(1,834)	(8,910)	(59,735)
Prior year cash not recognised	1,289	-	1,289	-
Non-cash items				
Notional audit fee	55	98	153	193
Cost of capital	2,133	112,197	114,330	118,652
Bank of England services	-	11,179	11,179	12,171
Transfers in of assets	-	-	-	494
Net liabilities transferred from RFS	-	-	-	(94)
Intra departmental consolidation adjustments – Supply balances	49,213	(49,213)	-	-
Intra departmental consolidation adjustments – other	505	(505)	-	-
<b>Net increase/(decrease) in General Fund</b>	<b>32,839</b>	<b>(137,556)</b>	<b>(104,717)</b>	<b>24,102</b>
<b>General Fund at 1 April</b>	<b>936</b>	<b>1,352,491</b>	<b>1,353,427</b>	<b>1,329,325</b>
<b>General Fund at 31 March (Schedule 3)</b>	<b>33,775</b>	<b>1,214,935</b>	<b>1,248,710</b>	<b>1,353,427</b>

**24. REVALUATION RESERVE**

	OGC	HMT	HMT	Total
	investments	tangible assets		
	£000	£000	£000	£000
<b>Balance at 1 April 2002:</b>	<b>50,585</b>	<b>247,205</b>	<b>3,027</b>	<b>300,817</b>
<b>Arising on revaluation during the year (net):</b>				
Tangible assets and investments	2,145	(20,600)	2,680	(15,775)
Surplus property	1,657	-	-	1,657
<b>Transfer (to)/from General Fund in respect of realised element of revaluation reserve:</b>				
Tangible assets and investments	(662)	(9,560)	251	(9,971)
Surplus freehold property	(50,392)	-	-	(50,392)
<b>Balance at 31 March 2003</b>	<b>3,333</b>	<b>217,045</b>	<b>5,958</b>	<b>226,336</b>

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

## 25. NOTES TO SCHEDULE 5

Programme grants and other current gross expenditure have been allocated as follows:

	Programme grants and other current gross expenditure		Capital employed	
	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>
	£000	£000	£000	£000
<b>Objectives:</b>				
(1) Maintaining a stable macroeconomic framework with low inflation;	85,412	93,572	(3,742)	2,597
(2) Maintaining sound public finances in accordance with the Code for Fiscal Stability;	12,520	8,643	760,077	795,074
(3) Improving the quality and cost effectiveness of public services;	10,650	(11,348)	16,312	94,180
(4) Increasing the productivity of the economy;	799	11	(5,613)	3,896
(5) Expanding economic and employment opportunities for all;	67	2	(468)	1,948
(6) Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;	529	4	(3,742)	325
(7) Achieving a high standard of regularity, propriety and accountability in public finance;	983	10	(7,017)	2,597
(8) Securing an innovative, fair dealing, competitive and efficient market in financial services, while striking the right balance with regulation in the public interest;	59,426	71,819	772,375	808,537
(9) Promoting UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.	2,092	1,010	(7,485)	4,870
(10) Other resources required not falling under HM Treasury's nine main objectives.	1,113	1,570	(45,651)	(59,780)
<b>Operating costs/net assets</b>	<b>173,591</b>	<b>165,293</b>	<b>1,475,046</b>	<b>1,654,244</b>

The main items underlying the above analysis are the cost of capital charge in respect of the Treasury's investment in the Bank of England (objectives 1 and 8); the cost of coinage (objective 1); non-Voted expenditure on Bank of England services (objectives 2 and 8); and spending by OGC (objective 3).

The main year on year changes were as follows:

- Changes in OGC expenditure, notably negative expenditure in 2001-02 relating to reductions in provisions for the vacant leasehold estate, which was not repeated in 2002-03 (objective 3);
- Reduction in coinage costs (objective 1);
- Acquisition of responsibility for functions formerly performed by NILO (objective 2);
- Changes to the financing of insurance services during 2001-02 (objective 8).

## 26. CONTINGENT ASSETS &amp; LIABILITIES DISCLOSED UNDER FRS12

	<u>2003</u>	<u>2002</u>
	<u>£000</u>	<u>£000</u>
<b>Contingent assets</b>		
OGC is pursuing claims against other parties to recover monies in connection with the disposal of vacant properties. The probable net amount recoverable is estimated in the range shown. The claims currently outstanding are expected to be settled over a three-year period from the balance sheet date. Claims against OGC for dilapidations on expired leases and associated costs are considered to be adequately covered in the specific dilapidations and legal costs provision (see Note 22 above).	2,000 to 8,400	1,850
The Barlow Clowes group of companies collapsed in 1988, and the Treasury subsequently paid compensation to investors. The receivers and liquidators of the Barlow Clowes companies brought proceedings in the Isle of Man against the directors of the International Trust Corporation (IoM) Ltd. Judgement was given against the defendants on 11 February 2002 for an amount subsequently calculated to be £8,435,953.41. The defendants appealed and the judgement on their appeal is due to be given on 15 July 2003. Until the outcome of the appeal is known, no steps have been taken to recognise these sums in the financial statements as there is no certainty of recovery.	8,436	nil
A licensing agreement was signed on 27 September 2002 between the Disposals agency of the Ministry of Defence, on behalf of HM Government, and Odyssey Marine Exploration for further archaeological exploration of the wreck of HMS Sussex and recovery of artefacts etc. Under the agreement a share of the net proceeds of the sale of coins and other marketable artefacts will be shared between the two parties. HM Treasury will receive the net proceeds of the sale of gold and silver coins. Insufficient certainty exists at present as to the presence or value of any potential recovery of artefacts to quantify the contingent asset.	Not known	Not applicable
<b>Contingent liabilities</b>		
Arrangements to provide reinsurance facilities for terrorist attacks against industrial and commercial property in mainland Great Britain where under the arrangements insurers had exhausted their funds for meeting the cost of any claims. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.	Unquantifiable	Unquantifiable
Arrangements for the insurance of third party war and terrorism cover to the UK aviation industry via Troika. Ceased to provide live policies from 1 November 2002 but liability continues for 12 months following this date to allow any new claims to come forward. None are foreseen.	Unquantifiable	Unquantifiable
Guarantee on the privatisation of H M Paymaster General against liabilities incurred by the purchaser in connection with the ownership or operation of the business before its transfer. This is the maximum possible liability, but no assessment has been made of the expected level of payments.	4,800	4,800

**26. CONTINGENT ASSETS & LIABILITIES DISCLOSED UNDER FRS12 (continued)****CONTINGENT LIABILITIES NOT REQUIRED TO BE DISCLOSED UNDER FRS12 BUT INCLUDED FOR PARLIAMETARY REPORTING AND ACCOUNTABILITY**

	<u>2003</u>	<u>2002</u>
	<u>£000</u>	<u>£000</u>
Arrangements under the Government Trading Funds Act 1973 section 5 whereby HMT underwrite the value of coins in circulation.	3,154,000	3,275,000
Arrangements under the National Loans Act 1968 section 9, under which the Treasury underwrites the difference between the value of Bank of England notes in circulation and the value of assets not backed by guarantee held at the Issue Department of the Bank.	19,412,000	18,250,000

**27. CAPITAL COMMITMENTS**

There are no capital commitments for OGC or HMT.

**28. OPERATING LEASES AND THE SERVICE ELEMENT OF ON-BALANCE SHEET PFI CONTRACTS****Commitments**

At 31 March 2003 the Department was committed to making the following payments during the next year in respect of operating leases and the service element of the on-balance sheet PFI contract:

	<u>2003</u>			<u>2002</u>
	<u>Land &amp; buildings</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Lease expires:				
Within one year	-	42	42	46
Between two and five years	83	247	330	202
After five years	8,449	-	8,449	6,881
	<u>8,532</u>	<u>289</u>	<u>8,821</u>	<u>7,129</u>

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

<b>Receivables</b>	<u>2003</u>			<u>2002</u>
	<u>Land &amp; buildings</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Lease expires:				
Within one year	-	-	-	-
Between two and five years	254	-	254	-
After five years	-	-	-	-
	<u>254</u>	<u>-</u>	<u>254</u>	<u>-</u>

## 29. OTHER COMMITMENTS

The Treasury has committed to pay the Royal Mint for the costs of manufacturing circulation coinage. Monthly payments are made for coins issued, on the basis of a price agreed in a Service Level Agreement, which is subject to an annual efficiency adjustment equivalent to the annual change in RPI minus 2%. The price was agreed on the basis of a standard mix of denominations, and so is converted into a price per factored unit, to reduce the risk to the Mint and the Treasury of demand for each denomination changing. The costs charged to the Treasury are based on the price per factored units. For the year 2002-03 the Treasury purchased 1,585m coins, translating to charges for 1,914 million factored units at a cost of £14,903,250.

Number of coins	Price per million coins (£)	Factored Units (millions)	Price per factor (£)	Commitment based on the purchase of 1,914m factored units (£ 000)
0 to 1,400,000,000	10,268	0 to 1,817	7,914	14,380
1,400,000,001 to 1,800,000,000	7,013	1,818 to 2,336	5,404	523
Over 1,800,000,000	6,011	Over 2,336	4,633	
Excluding VAT				

In addition the Royal Mint charges the Treasury for metal and freight costs, which totalled approximately £8m in 2002-03.

## 30. RELATED PARTY TRANSACTIONS

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

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

Jon Cunliffe and James Sassoon are both Managing Directors of core Treasury. Treasury has a 44.56% shareholding in Partnerships UK plc, a public private partnership with a majority private sector shareholding. PUK receives payment for work done on a commercial basis for the Treasury and other Government departments. It does not receive any grant in aid from HM Treasury. Jon Cunliffe was a director of PUK up to 25 November 2002 and James Sassoon a director from that date.

HM Treasury has lead policy responsibility for the Statistics Commission which receives its funding by way of a grant from HMT. John Kingman is employed by the core Treasury as a senior manager. His father was chairman of the Statistics Commission for the financial year 2002/3.

During 2002-03, Mike Williams in his role as Chief Executive of DMO was a non-executive member of the board of CRESTCo Ltd (and Chairman of CRESTCo's Audit and Compliance Committee) for which he was paid a fee of £10,000, which is passed to the DMO. CRESTCo Ltd provides settlement and related services to the UK securities markets. The Bank of England settles the majority of the DMO's market transactions through the CREST and CMO systems run by CRESTCo, for which they pay CRESTCo a proportion of the settlement charges.

Other related parties with whom DMO has undertaken various transactions are the Bank of England, and National Savings & Investments.

None of the DMO Managing Committee members, senior managers or other related parties has undertaken any material transactions with the DMO during the year.

The OGC board members have no related party transactions to report.

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## 31. ACCOUNTABILITY DISCLOSURES

### 31.1 Claims waived or abandoned

HMT administration costs include £141,816.99 arising from claims waived or abandoned. Of these no single claim exceeded £100,000. OGC administration costs include £50,366.34 for claims abandoned or waived.

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## 32. FINANCIAL INSTRUMENTS

### Risk management objectives and policies

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

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

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

### Liquidity risk

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

### Interest rate risk

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

### Currency risk

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

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**Credit risk**

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

**Financial liabilities**

All of HM Treasury's financial liabilities are interest free, and mature within one year or less, or on demand, except for the PFI creditor described in notes 14.2 and 21, and certain provisions described in note 22. The fixed interest rate implicit in the PFI creditor is 7%; it is paid off in instalments over the period to 2037. The Early Retirement Provision and the Surplus Leasehold Property Provision have been discounted for the time value of money and therefore are treated as carrying interest at a fixed rate of 6%. The Specific Dilapidations and Legal Costs provisions have not been discounted and therefore are treated as interest free. All material financial liabilities are carried at their fair value, and are denominated in sterling.

**Financial assets**

The department's financial assets comprise its investments as set out in note 15, long term debtors as set out in note 19 and cash at bank and in hand as set out in note 20. All financial assets are non-interest bearing, except for the Partnerships UK Loan Stock, which pays a nominal rate of interest of 6%. Cash at bank and in hand is available on demand. The fixed asset investments are held for an unlimited term. The policy on current investments is that they should be disposed and therefore it has been assumed that they will be held for less than 12 months. Long term debtors are expected to be realised in 2 to 3 years. All material financial assets are denominated in sterling.

**Fair value of financial assets**

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

	Carrying value 31 March 2003 <hr/> £000	Estimated fair value 31 March 2003 <hr/> £000
Public Dividend Capital in Royal Mint (note 15.1b)	5,500	48,181
Public Dividend Capital in OGCBuying.solutions	350.0	14,368
Partnerships UK Loan Stock (note 15.1c)	15,594	26,732 to 15,594

Public Dividend Capital in the Royal Mint and OGCBuying.solutions is carried at historical cost in accordance with the RAM. The net asset value from the latest accounts is treated as fair value. The investment in Partnerships UK Loan Stock is carried at historical cost in the absence of a reliable market value. The estimated range of fair values for the purpose of this disclosure has been derived from the nominal value of £15.594 million and the coupon interest rate of 6% at a range of yields from 3.5% to 6%. A yield of 3.5% implies a fair value of £26.732 million, while a yield of 6% implies a fair value of £15.594 million.

**33. POST BALANCE SHEET EVENTS**

There are no reportable post balance sheet events.



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