Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6

HM Treasury

Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1344

29 June 2006
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(For the year ended 31 March 2006)

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Contents

MANAGEMENT COMMENTARY

Scope of these accounts

1. The annexed 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. They present the operating costs and financial position of HM Treasury group ("HM Treasury" or "the Group").

2. HM Treasury has three distinct operating units – the core Treasury, the Debt Management Office (DMO) and the Office of Government Commerce (OGC). Most of the analysis in these accounts include separate figures for the core Treasury. Figures for the DMO alone are reported in its separately published accounts, which can be viewed at http://www.dmo.gov.uk. The Royal Mint (http://www.royalmint.com) and OGCbuying solutions (http://www.ogcbuyingsolutions.gov.uk) are Trading Funds of the core Treasury and the OGC respectively, and as such publish their own accounts. These are not consolidated into these accounts, but are shown as investments.

3. As the UK's finance and economics ministry, HM 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 HM 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. HM Treasury has eight objectives, set under the 2004 Spending Review (SR2004). These are listed below, and can be broadly categorised under four main headings:

- *Maintaining Stability at home and overseas*
  Objective I: Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability.
  Objective V: Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the most vulnerable.
- *Raising Trend Growth*
  Objective II (part 1): Increase the productivity of the economy and expand economic and employment opportunities for all.
  Objective III: Promote efficient, stable and fair financial markets for their users and the economy.
- *Promoting Fairness and Opportunity for all*
  Objective II (part 2): Increase the productivity of the economy and expand economic and employment opportunities for all.
  Objective IV: Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest.
  Objective VIII: Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies.
- *Delivering High Quality Public Services*
  Objective VI: Improve the quality and cost effectiveness of the public services.
  Objective VII: Achieve world-class standards of financial management in government.

Contributions to performance against these objectives are made from across the Group, including DMO (Objective I) and OGC (Objective VI).

5. These objectives cover the full range of departmental activity over the medium term. Public Service Agreement (PSA) targets identify the specific priorities that we aim to achieve in order to measure progress towards the objectives in the three year timeframe covered by the spending plans. The Treasury was set PSA targets under the 2004 Spending Review. Performance against HM Treasury's PSAs is reported in the Departmental Report and the Autumn Performance Report. The latest Departmental Report was published on 11 May 2006.

Efficiency

6. Following the 2004 Spending Review, HM Treasury has set out its plans to secure £18.7 million of efficiencies by 2008 (details available at http://www.hm-treasury.gov.uk./media/F59/FE/pbr05_efficiency_261.pdf). To support these plans, the core Treasury has committed to reducing the number of full-time equivalent staff it employs in the department by 150 between April 2004 and April 2008. As set out in the Treasury's Departmental Report (annex C), as at March 2006, the Treasury is on track to meet this plan.

7. The Comprehensive Spending Review 2007 (CSR07) settlement for the Group was announced in the Budget in March 2006. Building on the 2004 spending review efficiency programme, the Group's Departmental Expenditure Limit will fall by 5% in real terms per year in 2008-09, 2009-10 and 2010-11, with access to a modernization fund to help meet the transitional costs of any changes necessary to implement the settlement. As part of the Treasury's response to the 2007 Comprehensive Spending Review a series of zero based reviews are being undertaken, covering at least 75 per cent of the activity of the Treasury. The outcome of these zero based reviews will influence the distribution of resources and prioritisation of work going forward.

The core Treasury

Activities

8. 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; and
- 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, procuring the supply of coinage and influencing economic agents.

Much of this work is undertaken in partnership with other bodies. A description of arms length bodies is included in the Statement of Treasury Group Compliance with Corporate Government Code of Good Practice (page 14).

9. 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 (MEPs) and salaries of current MEPs, and 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; and
- 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 2005-06

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

- in the Departmental Report and the Autumn Performance Report;
- in the Economic and Fiscal Strategy Report and Financial Statement and Budget Report (March 2006); and
- on the Treasury website (www.hm-treasury.gov.uk).

11. 2005-06 has been another successful year for the core Treasury – it is on course to meet seven of its SR2004 PSA targets, two targets have yet to be assessed (the data is not available) and one target shows slippage on two of its four elements. The main achievements in the delivery of the Treasury's objectives in 2005-06 have been as follows:

- inflation has remained close to the target of 2% and public sector net debt is projected to remain below 40 per cent of GDP in every year of the economic cycle;
- the UK productivity gap with France has halved since 1997, the gap has closed with Germany and the UK is leading Japan by around 11 percentage points; and
- the UK Presidency of the G8 led to a package of measures to tackle poverty worldwide and the Presidencies of the EU and the G7 enabled the Treasury to make substantial progress in a number of financial services issues.

12. The Government Social Research Unit transferred to HM Treasury from the Cabinet Office, with 15 full-time equivalent posts. The Treasury and Her Majesty's Revenue and Customs have established a joint Correspondence and Enquiry Unit, with a transfer of 6 full-time equivalent posts to the Treasury.

Reviews commissioned by HMT

13. During the year the Chancellor of the Exchequer commissioned the following reviews:

Lyons Inquiry into Local Government (http://www.lyonsinquiry.org/)

Cooksey Review (http://www.hm-treasury.gov.uk./independent_reviews/cooksey_review/cookseyreview_index.cfm)

Barker Review of Land Use Planning (http://www.hm-treasury.gov.uk./independent_reviews/barker_review_land_use_planning/barkerreview_land_use_planning_index.cfm)

The Cox Review of Creativity in Business (http://www.hm-treasury.gov.uk./independent_reviews/cox_review/coxreview_index.cfm)

Gowers Review of Intellectual Property (http://www.hm-treasury.gov.uk/gowers/)

Stern Review on the Economics of Climate Change (http://www.hm-treasury.gov.uk./independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm)

Events since 31 March 2006

14. On 5 May 2006 Des Browne was replaced by Stephen Timms as Chief Secretary to the Treasury, whilst Ivan Lewis was replaced by Ed Balls as Economic Secretary. Sir Peter Gershon has extended his term as Non-Executive Director on the Treasury Board to 31 March 2008.

The future

15. The Treasury has identified five policy priorities for the next 12 months:

- maintaining sound public finances;
- maintaining stable tax revenues – both through effective delivery and through improved coordinated policy making;
- ensuring the tools and expertise are in place to drive a more effective and efficient allocation of public money;
- promoting domestic productivity in the context of international trade and competition, developing the existing productivity agenda yet further and linking it to challenges from growing economies such as China and India; and
- addressing poverty domestically and internationally – ensuring that the G8 debt deal sticks and that the Government continues to deliver on its domestic commitments on child poverty.

To achieve these priorities, the Treasury will need to focus on professionalism in delivery and working flexibly, effectively and efficiently, including in collaboration with our key stakeholders.

Debt Management Office

Activities

16. The DMO was established on 1 April 1998 to carry out the Government's debt management policy of minimising financial costs over the long 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 1.

17. The operations of the Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) are integrated with the DMO, while each retains its separate legal entity. The principal activity of the PWLB is to lend to local authorities for capital purposes and collect repayments, while the CRND's principal function is to manage the investment portfolios of certain public funds.

Results in 2005-06

18. The DMO successfully met both of its centrally directed remits for debt and cash management. The DMO also achieved all of its strategic objectives and substantially met all of its published targets. The DMO's issuance of gilts amounted to £52.3 billion in 2005-06, through 25 auctions and the first ever syndicated offering of a gilt.

Events since 31 March 2006

19. There have been no significant or unexpected events since 31 March 2006.

The future

20. The key planning themes for the 2005-08 period recognise the need for the DMO to continue to deliver its core operational objectives to the highest standard, to develop further initiatives that advance the effectiveness of the Government's financial management and to continue to be efficient in the stewardship of the agency. They also explicitly recognise the key contribution the DMO makes in the support of HM Treasury's own objectives and the value that has and can continue to be added in this respect.

21. For the period 2005-06 to 2007-08 the DMO's key business planning themes are to:

- continue to deliver its core operations and activities to the excellent standard required;
- further the development of debt and cash management strategy in particular where this identifies initiatives that may provide cost and risk minimisation benefits for the Government;
- improve efficiency and to reduce operational risk where possible; and
- ensure the core values of the DMO continue to make it an excellent place to work.

Office of Government Commerce

Activities

22. Since its creation in 2000, the OGC has worked with and through Government departments to deliver substantial advances and improvements in procurement and in programme and project management. Following the Government's 2004 Spending Review, OGC's remit has been extended to the whole of the public sector.

23. OGC's mission is to work with the Public Sector as a catalyst to achieve efficiency, value for money in commercial activities and improved success in the delivery of programmes and projects. It has an executive agency, OGCbuying.solutions, which provides direct procurement services to the public sector and has Trading Fund status.

Results in 2005-06

24. OGC leads on improving public services by working with departments to help them meet their efficiency targets – amounting to £20 billion a year by 2007-08. By the end of 2005, the Government has reported provisional efficiency gains of £6.4 billion, over 40,000 headcount reductions (against a target of 84,000 by 2008) including 7,150 reallocations to the frontline and over 6,600 relocations out of London and the South East (of 20,000 by 2010).

25. Working with departments, OGC delivered value for money gains in central civil government of £1.6 billion in its first three years, against a Public Service Agreement target of £1 billion. Following this success, the Government set a target of £3 billion gains for the period 2003-04 to 2005-06. This target was achieved a year early: OGC reported gains of £2.3 billion for 2004-05 to build on the £2 billion gains in 2003-04.

Further information can be found in:

- the HM Treasury Departmental Report (http://www.hm-treasury.gov.uk./about/departmental_reports/dept_report2006.cfm); and
- the OGC website (http://www.ogc.gov.uk).

Events since 31 March 2006

There have been no significant or unexpected events since 31 March 2006.

The future

26. OGC has identified three key areas of work covering the period 2005-08:

- to improve public services by working with departments to help them meet their efficiency targets amounting to £20 billion a year by 2007-08;
- to deliver a further £3 billion saving by 2007-08 in central government civil procurement (building on the savings achieved since 2000) through improvements in the success of programmes and projects and through other commercial initiatives; and
- to improve the success rate of mission critical projects.

In the longer term, OGC's aim is to develop and embed an improvement culture, which will lead to further efficiencies and savings beyond 2008, and to develop the commercial capability of the public sector.

Financial position and results in outline

Financial results

27. The table below sets out the Treasury group's audited outturn of operating costs for 2004-05 and 2005-06 (in the format shown in the 2006 Departmental Report, Annex B, Table 2 http://www.hm-treasury.gov.uk/media/228/0B/hmtdept_report2006.pdf). For 2005-06, it also compares the audited outturn with the unaudited and estimated outturn published in the Departmental Report in May 2006. Similar analysis of earlier years, and planned spending for 2006-07 and 2007-08, is available in the Departmental Report.

Group Operating Costs

	2004-05 Audited Outturn	2005-06 Unaudited Estimated Outturn	2005-06 Audited Outturn
	£m	£m	£m
Core Treasury	**134.2**	**152.0**	**152.1**
Of which:			
Net administration costs, including Financial Inclusion Fund	100.8	103.5	105.4
Exceptional items	(19.1)	(4.9)	(4.9)
Banking and gilts registration	15.2	12.0	10.4
Coinage DEL	30.9	31.5	32.0
Royal Mint cost of capital (AME)	4.0	1.4	1.2
Other core Treasury	2.5	8.5	8.0
Debt Management Office	**6.9**	**9.8**	**7.5**
Of which:			
Net administration costs	6.4	9.1	7.2
Office of Government Commerce	**31.1**	**54.6**	**53.3**
Of which:			
Net administration costs	34.9	45.0	44.3
Residual estate and other	(4.6)	0.7	0.6
Efficiency Challenge Fund	0.8	8.9	8.4
Net cost of investment in Bank of England (AME)	**56.9**	**37.7**	**36.0**
Of which:			
Cost of capital	94.7	84.9	83.1
Dividend receivable	(37.9)	(47.2)	(47.0)
Other functions	**20.4**	**21.5**	**20.9**
Of which:			
Civil List (gross)	9.5	9.5	9.5
Salaries and pensions of MEPs	6.9	6.8	6.2
Grant in Aid to Statistics Commission	1.6	1.4	1.3
Royal Household Pension Fund (AME)	1.9	1.5	2.0
Other			
Grants to Parliamentary bodies	1.6	3.1	3.1
Honours & Dignities	0.1	0.0	0.0
Civil List recoveries	(1.3)	(1.3)	(1.3)
Paymaster Indemnity & HMS Sussex cost of capital (AME)	0.1	0.5	0.0
Total Resource Budget per Departmental Report Table 2	**249.4**	**275.6**	**269.8**
Of which:			
Departmental Expenditure Limit (DEL)	186.5	234.5	230.6
Annually Managed Expenditure (AME)	62.8	41.1	39.2
Less: non-voted expenditure outside resource accounts			
Civil List (net)	(8.2)	–	(8.3)
Salaries and pensions of MEPs	(6.9)	–	(6.2)
Royal Household Pension Fund (AME)	(1.9)	–	(2.0)
Non-budget income not reported in the Departmental Report			
Pool Re insurance premiums	(17.5)	–	(29.3)
Other non-DEL Consolidated Fund Extra Receipts	(0.3)	–	(0.6)
Net operating cost per Resource Accounts	**214.5**	**–**	**223.5**

Key
AME – annually managed expenditure
DEL – departmental expenditure limit

28. The main variances between the two years are discussed below. Variances between the outturn for 2005-06 and the limits voted by Parliament in the 2005-06 Spring Supplementary Estimate are analysed in note 3 to the accounts.

29. Excluding exceptional items, core Treasury administration costs have risen from £100.8m in 2004-05 to £105.4m in 2005-06. This includes £2m extra pension costs because of an increase in the contributions payable by all departments to the Principal Civil Service Pension Scheme and work for the UK's joint presidencies of the G7 and G8, as well as on the Comprehensive Spending Review.

30. The exceptional items are gains on revaluation of the 1 Horse Guards Road building (£4.9m in 2005-06 and £10.9m in 2004-05), and a £8.2m gain on the disposal of the 100 Parliament Street building to HM Revenue and Customs in 2004-05.

31. Banking and gilts registration costs in 2005-06 are reduced by £1.4m to correct for an over accrual in 2004-05. The over accrual therefore represents £2.8m of the year on year change. The previous year's costs were also higher because of start up costs of the new contracted out provider of some of the services.

32. Coinage costs increased in 2005-06 due to the rise in metal prices, while the cost of capital charge fell from £4.0m to £1.2m because the target rate of return set for the Royal Mint was reduced from 7.8% to 3.5%.

33. The line "Other core Treasury" includes programme costs, which rose in 2005-06 because of planned spending on the UK's presidencies of the G7 and G8 and on a campaign to market stakeholder savings and investments products.

34. DMO's 2005-06 outturn was estimated in the Departmental Report as £9.1m, but audited outturn was £7.2m after correctly allowing for additional fee income.

35. OGC's administration costs have increased by £9.4m year on year, including additional staff costs and £5.4m extra consultancy costs, as a result of the work engendered by the organisation's widened remit.

36. OGC's net programme costs have increased by £12.8m. £8.4m was distributed from the Efficiency Challenge Fund in 2005-06 (2004-05: £0.8m), supporting departments and other public sector bodies work towards their efficiency targets. OGC's 2004-05 programme costs included a £3.1m credit, releasing provisions previously made for the costs of the vacant estate. Now that most of the vacant estate has been disposed of, the value of these credits is reducing, and the equivalent net credit in 2005-06 was £1.0m. Programme income has also reduced following the transfer of the Whitehall Systems to OGCbuying.solutions.

37. The 2005-06 cost of capital charge on the core Treasury's investment in the Bank of England is £11.6m less than the 2004-05 charge because of a reduction in the rate at which it is calculated. In 2004-05 the rate used was 6%, which was and remains the agreed target rate of return for the Bank. This year, the charge in the resource accounts is based on a rate of 4.94%, which is the post tax equivalent of the 6% target rate.

38. The effect of the change has been to reduce the cost of capital charge in 2005-06 by £17.7m compared to the charge that would have arisen at the rate of 6%, as used in 2004-05. The dividend payable by the Bank to the core Treasury has risen from £37.9m in 2004-05 to £47.0m in 2005-06.

39. The "Other Functions" section of the table includes those costs borne by HM Treasury for historical reasons, but not related to the business of a finance and economics ministry. The Civil List, the salaries and pensions of Members of the European Parliament and the Royal Household Pension Scheme are Standing Services of the Consolidated Fund, which are included in HM Treasury's resource budget (and thus included in the Departmental Report) but are not voted on by Parliament nor included in the resource accounts.

40. Overall, the year on year movement in the Group's resource DEL, from £186.5m in 2004-05 to £230.6m in 2005-06, is therefore mainly caused by the higher level of exceptional gains in 2004-05 (a difference of £14.2m) and the additional net costs of the OGC (£22.2m). The core Treasury administration costs and other core Treasury programme costs for the international presidencies added further expense.

41. The resource accounts include some income that is outside HM Treasury's budget, and excluded from the Departmental Report, which the department collects on behalf of the Consolidated Fund. The main item of this sort is reinsurance premium income from Pool Re, whereby HM Treasury provides reinsurance for certain terrorist attacks on industrial and commercial property. The 2005-06 income in the resource accounts reflects the 2003 underwriting year.

42. The overall increase in the net operating cost per the resource accounts, from £214.5m to £223.5m, is primarily made up of the £44m increase in DEL described above, offset by the £21m decrease in the net cost of the investment in the Bank of England, and the extra £12m of income from Pool Re.

Balance sheet

43. HM Treasury's balance sheet is dominated by its shareholding in the Bank of England (note 13.1), which is valued in line with the bank's net assets at £1.7 billion. As explained in note 1.7 to the accounts, the value of this investment as at 31 March 2005 was restated.

44. Other significant assets and liabilities include:-

- the operational offices and office equipment used by the three business units (note 11)
- investments in Partnerships UK, OGC buying solutions and the Royal Mint (note 13)
- provisions relating to surplus property portfolio and early retirement costs (note 19)
- the long term creditor for the 1 Horse Guards Road PFI contract (note 18.1 and note 25.2).

Cash flows

45. The net cash outflow for the year of £21.7m for the group is mainly caused by the payment over to the Consolidated Fund of £17.5m Pool Re insurance premiums and £6.7m excess appropriations in aid received by the Treasury at the end of the 2004-05 financial year.

International Financial Reporting Standards

46. As explained in note 1 to the accounts, the accounting policies used follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The Government is committed to the eventual application of International Financial Reporting Standards (IFRS) in its accounts, but as a result of uncertainties in the final requirements of IFRS and notably the current absence of international standards in key areas such as accounting for Private Finance Initiative schemes, has not yet determined when such a change might be made. Meanwhile, it is our view that the substitution of current IFRS for UK GAAP as the basis of the accounting policies applied in the Resource Accounts of HM Treasury would not materially change the overall view of the department's operations.

Management

Ministers and senior managers

47. The Remuneration Report (page 27) identifies the Treasury's Ministers, those senior managers who are members of the Treasury Board and the Chief Executives of DMO and OGC for 2005-06.

Register of interests

48. Senior managers within the Treasury are required to complete a declaration of any interests. Details of the related party interests of members of the Board including Non Executives are shown in note 30 to the accounts.

Diversity and Equality

49. The Treasury seeks to actively promote a culture that values difference and recognises that diversity enriches the economy – and our society – and is an essential ingredient of change and progress. As an employer, the Treasury seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented work force that is representative of the society it serves. The Treasury seeks to foster a culture of trust and openness in which people support and develop each other, and feel valued for the contribution they make.

50. Many Treasury staff take advantage of alternative working patterns and home working, which have been embedded into the Treasury's working arrangements for a number of years. The Treasury supports staff with dependant care responsibilities through a family help line and childcare vouchers as well as arrangements that include a holiday play scheme. The additional benefits have been welcomed at all levels in the department and take up, from both men and women, has been good.

51. The Treasury has appointed a Diversity Champion at Board level to ensure the department's aims on diversity are understood at every level and are acted on and delivered by all.

52. The department's policy on the employment of people with disabilities is detailed on the external website. The Treasury makes reasonable adjustments for employees with disabilities, and to the recruitment process. Further details are at http://www.hm-treasury.gov.uk/careers.

53. To support and retain employees with disabilities the Treasury continues to work closely with its Disability Advisory Group (a staff representative group) to develop a strategy aimed at increasing the number of disabled staff recruited to the department and reducing the barriers for disabled staff in the workplace. The Treasury has built on the disability strategy introduced in 2004 which included senior level advocates for disabled staff and improved guidance for staff and managers on reasonable adjustments. This approach contributed to the positive results the Treasury received in the Employers' Forum on Disability benchmarking exercise in which the department participated in 2005. The Treasury has set a number of performance indicators for its disability strategy and will continue to monitor progress.

Payment of suppliers

54. HM 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 2005-06 Core Treasury and DMO achieved a performance of 94.7% against this target (2004-05: 90.23%). Improving payment performance continues to be a priority.

55. Over the same period, the OGC achieved a performance of 99.5% (2004-05: 99.86%).

Communications

56. The Treasury has a long standing policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. A variety of channels are employed, including Board question times, email alerts, intranet pages, team briefings, newsletters and the staff magazine, and regular meetings and discussions with trade union representatives. The central communications channels are administered by a small internal communications branch, who also provide internal consultancy and support to Treasury teams on communications issues.

Sustainable development

57. The Treasury is committed to sustainable development, playing a key role in the UK's sustainable development action plan, and striving to reduce the impact of its operations on the environment. The HMT sustainable development action plan was published in March 2006 and can be found at http://www.hm-treasury.gov.uk/media/089/DA/sustainabledev_170306.pdf.

Auditors

58. The Comptroller and Auditor General examines HM Treasury's resource accounts under the Government Resources and Accounts Act 2000 and reports his findings to the House of Commons.

59. Notional charges for statutory audit services for the year ended 31 March 2006 are:

Core Treasury	£72,000
Office of Government Commerce	£41,000
Debt Management Office	£21,000

60. The Comptroller and Auditor General also undertakes other statutory activities that are not related to the audit of the Treasury's financial statements.

61. I confirm that in connection with the audit of the annexed accounts that I have taken steps to ensure that the auditors are aware of all relevant information.

Nicholas Macpherson
Permanent Secretary

26 June 2006

STATEMENT OF TREASURY GROUP COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF GOOD PRACTICE

1. HM Treasury Group (comprising the 'core' Treasury, the Office of Government Commerce and the Debt Management Office) complies with the provisions in the Corporate Governance Code of Good Practice (CGCGP). In 2005-06, the focus of corporate governance has been on enhancing the oversight of the Treasury Board on the whole of the Treasury Group.

Ministerial responsibilities

2. The Chancellor of the Exchequer has overall responsibility for the Treasury. The Chancellor of the Exchequer delegates day-to-day responsibility to the Treasury's ministers:

- Chief Secretary to the Treasury
    - Responsibility for public expenditure including:
        - Spending reviews and strategic planning;
        - In-year control;
        - Public sector pay and pensions;
        - Efficiency in public services;
        - Capital investment; and
        - Public service delivery and PSA targets.
- Treasury interest in devolution;
- Assist the Chancellor where necessary on International and European issues; and
- Oversight of integration of the tax and benefit system.
- Paymaster General :
    - Strategic oversight of the UK tax system as a whole including direct, indirect, business and personal taxation;
    - Tax credits and integration of the tax and benefit system;
    - Departmental Minister for HM Revenue and Customs;
    - Overall responsibility for the Finance Bill;
    - European and international tax issues and assist where necessary on European issues;
    - The voluntary sector, charities, including Corporate Social Responsibility;
    - Treasury interest in childcare issues; and
    - Support to the Chief Secretary on public spending issues and selected Cabinet Committees.
- Financial Secretary:
    - Enterprise and productivity including small business taxation and support to the Chancellor on economic reform;
    - Competition and better regulation;
    - Science policy, including implementation of the 10-year science strategy and the R&D tax credit;
    - Regional economic policy;

  - Urban regeneration and social exclusion including housing and planning;
  - Environmental issues including taxation of transport;
  - Taxation of oil;
  - Excise duties and gambling;
  - Public/Private Partnerships including Private Finance Initiative, and Partnerships UK;
  - Ministerial responsibility for the Office for National Statistics, the Royal Mint and Departmental Minister for HM Treasury;
  - Working with the Chief Secretary with responsibility for the Office of Government Commerce and procurement policy;
  - Support to the Chief Secretary on public spending issues including long-term challenges in the run up to the Comprehensive Spending Review and selected Cabinet Committees;
  - Assist where necessary on European issues; and
  - Working with the Paymaster General on the Finance Bill.

- Economic Secretary:
  - Financial services including banking, insurance, and the Financial Services Authority and financial services tax issues (such as ISAs, taxation of savings, stamp duty, insurance premium tax and pensions);
  - Personal savings policy;
  - Foreign exchange reserves and debt management policy, with responsibility for National Savings and Investment, the Debt Management Office and the Government Actuaries Department;
  - Support to the Chancellor on EU and wider international finance issues;
  - EMU preparations;
  - Support to the Chief Secretary on public spending issues including long-term challenges for public spending and preparation of the Comprehensive Spending Review and selected Cabinet Committees;
  - Support to the Chancellor on macroeconomic and economic policy issues; and
  - Working with the Paymaster General on the Finance Bill.

3. Much of the work of the department is carried out by officials under the general direction of ministers, with strategic management and direction being provided by the Treasury Board, which meets formally 6 times a year.

Treasury Board

The purpose and objectives of the Treasury Board are as follows:

Purpose

- To lead a Treasury that delivers its objectives and targets now and in the future.

Objectives

- Shape the vision, strategy and priorities that deliver Treasury Ministers' objectives and communicate this to staff and other stakeholders;
- Monitor and improve Treasury performance and ensure risks and opportunities are identified and well-managed in the short, medium and long term;

- Ensure effective allocation, development and management of Treasury staff and financial resources including succession planning;
- Protect and enhance Treasury's reputation as a world-class finance ministry.

Executive membership of the Board during 2005-06 was as follows:

- Nicholas Macpherson – Permanent Secretary and Chair – (from August 2005; Managing Director, Budget and Public Finances – to August 2005)
- *Sir Gus O'Donnell – Permanent Secretary and Chair – (to July 2005)*
- John Oughton – Chief Executive of the Office of Government Commerce (executive member from March 2006, non-executive previously).
- Jon Cunliffe – Managing Director, Macroeconomic Policy and International Finance (and Second Permanent Secretary from November 2005)
- *Sir Nicholas Stern – Second Permanent Secretary (to October 2005) then non-executive member as below*
- Sam Beckett – Director of Operations (to May 2005 and from January 2006)
- Michael Ellam – Director of Policy and Planning
- *Tamara Finkelstein – interim Director of Operations (May to October 2005)*
- Mary Keegan – Managing Director, Government Financial Management
- John Kingman – Managing Director, Finance and Industry (from January 2006)
- Mark Neale – Managing Director, Budget, Tax and Welfare (from December 2005)
- *Sue Owen – interim Director of Operations (October 2005 to January 2006)*
- *James Sassoon – Managing Director, Finance, Regulation and Industry (to January 2006)*
- Jonathan Stephens – Managing Director, Public Services

Non-executives play a full role on the Board. The status of Treasury Board non-executive members is as follows:

- Sir Peter Gershon is now an independent member. He is Chairman of Premier Farnell plc and Symbion Limited. Up until March 2004, he was Chief Executive of the Office of Government Commerce;
- Stella Manzie is an independent member. She is Chief Executive of Coventry City Council;
- William Sargent is an independent member. He is joint Chief Executive of Framestore CFC and holds various other part-time posts in central government (including chairing the Treasury's Audit Committee);
- Sir Nicholas Stern is Head of the Government Economics Service and Adviser to the Government on the economics of climate change and development. He was second Permanent Secretary until October 2005; and
- Sir David Varney is Chairman of Her Majesty's Revenue and Customs, and fulfils a non-executive role on the Treasury Board by virtue of his extensive business experience as former Chairman of MMO2 and Chief Executive of BG Group.

4. The Treasury ensures that all of the appointments it makes – both public and departmental – adhere to the highest standards of propriety. Non executive and executive appointments to the Board are conducted in line with the First Civil Service Commissioner's code and with the involvement of the Commissioner's office. Non-executive members receive formal and informal induction on appointment, have regular meetings with Treasury staff, and are sent a monthly information pack relating to ongoing work in the Treasury.

5. The Permanent Secretary holds meetings with just the non-executives present after each Board meeting. Further work in the coming year will include formalizing the role for non-executive members in whistle-blowing in Treasury.

6. Matters reserved for Board decision include:

- Setting corporate plans and monitoring performance and resource issues against them;
- Monitoring arrangements for leadership development and talent management, including considering succession planning arrangements to and within the SCS;
- Approval of the Department's action plan in response to the Department's regular staff attitude survey;
- Taking specific decisions following referral from one of the Board's Committees or the Executive Management Group.

7. The Board has a programme for annual evaluation of its performance, which it has conducted in each of the last three years.

8. The Board is supported by two sub-committees – the Operations Committee and the Finance Committee. These committees are accountable to the Board for financial and operational issues, decisions and assessment of relevant information, as delegated under their terms of reference. Each of these Committees is chaired by an executive member of the Board. Operations, Finance and Audit Committee chairs present reports of the work of their Committees to each Board meeting. The Board is further supported by an Executive Management Group, which meets weekly. OGC and DMO also have boards with non-executive members, chaired by their respective Chief Executives.

Audit Committees

9. Each organisation within the Treasury Group has its own audit committee.

10. The core Treasury Audit Committee supports the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities on issues of risk, control and governance, and associated assurance. Members of the Committee are appointed by the Permanent Secretary for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary. The current membership of the Committee is:

- William Sargent, Chair and non-executive member;
- Stella Manzie, non-executive member; and
- James Sassoon, executive member of the Treasury Board until January 2005, external member from January to June 2006.

Chris Swinson was chair of the Audit Committee until June 2005, following which William Sargent was appointed.

11. Audit Committee meetings are also normally attended by:

- the Permanent Secretary;
- the Finance Director;
- the Head of Finance;
- the Head of Internal Audit;
- the Risk Improvement Manager; and
- a representative of External Audit.

12. Additional Accounting Officers for the Consolidated Fund, National Loans Fund and Contingencies Fund and Exchange Equalisation Account normally attend when matters relating to these accounts are discussed.

13. The Audit Committee meets with NAO and Head of Internal Audit prior to each committee meeting without those additional attendees listed above.

14. Over the period, the Committee considered and, where required, provided assurance to the relevant Accounting Officer on all Treasury accounts covered by the Committee's terms of reference. The Committee also reviewed the outcomes of all the Internal Audit reports issued in the period, as well as the follow up of those from the previous year.

15. HM Treasury's Government Internal Audit Standards require each Internal Audit Unit to have undertaken an external quality assurance review at least every 5 years. This was undertaken for the Treasury by Head of Internal Audit, HM Prison Service Agency between February and March 2005. The conclusion was that Treasury Internal Audit substantially meets the Standards, and that the service provided was in the "upper quartile" of internal audit units.

16. The UK Debt Management Office (DMO) Audit Committee supports the Agency's Chief Executive and Accounting Officer in his responsibilities on issues of risk, control and governance, and associated assurance. The Chair of the Committee is appointed by the DMO Managing Committee, with other Members appointed jointly by the Chair and the Managing Committee. Both the Chair and Members are appointed for a period of three years, only extendable (unless there are exceptional circumstances) for a further three-year period. The Chair of the Committee reports directly to the Accounting Officer. The current membership of the Committee is:

- Colin Price, Chair and non-executive member;
- Brian Larkman, non-executive member; and
- Jim Juffs, executive member (from April 2006).

17. The DMO Audit Committee meetings are also normally attended by:

- Chief Executive/Accounting Officer;
- Deputy Chief Executive;
- Head of Finance;
- Head of Internal Audit;
- Head of Risk Management;
- Head of HM Treasury Internal Audit; and
- A representative of External Audit.

18. Other DMO and external parties are invited to attend Committee meetings as and when required.

19. Over the period, the Committee considered and, where required, provided assurance to the Accounting Officer on all financial statements covered by the Committee's terms of reference. The Committee also reviewed the outcomes of internal and external audit reports, and risk management and compliance reports.

20. Government Internal Audit Standards require the Internal Audit unit to have undertaken an external quality assurance review at least every 5 years. This was undertaken for DMO by HM Treasury Internal Audit in March 2001. The overall conclusion was that DMO Internal Audit substantially met the Standards, with further improvements made at the time in response to the report. A further review is planned for 2006.

21. The OGC Audit Committee supports the Chief Executive/ Accounting Officer John Oughton in his responsibilities for risk, control and governance, and associated assurance. The Committee has four members:

- Colin Thwaite (Non-Executive Director on OGC's Board) – chair;
- Brian Glicksman (External member);

- David Fisher (External Member); and
- Peter Fanning (OGC Deputy Chief Executive).

22. The Chief Executive is not a member of the Audit Committee. He does however attend the meeting where the Accounts and Statement of Internal Control are agreed and other meetings at his discretion. Meetings are also attended by:

- the Executive Director of Corporate Services;
- Finance Director;
- Director of Internal Audit; and
- representatives from HM Treasury Internal Audit and the National Audit Office (External Auditors).

23. Members of the Committee are appointed by the Chief Executive for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the OGC Board after each meeting and in addition on an annual basis to the Chief Executive.

24. Over the period, the Committee considered and provided assurance to the Chief Executive on OGC's Accounts, Statement on Internal Control and Risk Management processes. The Committee also reviewed the outcomes of 13 audit reports, including on: Payroll; Value for Money; Customer Engagement; Capability and Capacity and ePIMS.

25. OGC's internal audit is due to be externally assurance reviewed in 2006-7. The review will be conducted by core Treasury Internal Audit.

26. Risk management is a standing agenda item at Committee meetings and the OGC Risk Improvement Manager (RIM) provides an update on risk management issues. In addition, OGC Directors are often invited to attend to provide an overview of risk management activity within their span of control.

27. The Audit Committee, in line with best practice, undertakes a self-evaluation exercise on an annual basis.

28. OGC's Internal Audit unit has complied with the Government Internal Audit Standards (GIAS) throughout the period, and has achieved a high level of cost effectiveness compared with other central units. The unit is staffed by 2 qualified auditors and supported by contractors for specific assignments.

Arms length bodies

The following are arms-length bodies of the Treasury:

Bank of England

29. The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998).

30. Part 1 of the Act sets out the constitution, regulation and financial arrangements for the Bank, including the requirements for the Bank to report annually to the Chancellor on its activities and its accounts. The Act provides for a Court of Directors and a Committee of Non-executive Directors ('NedCo') within Court. Court is responsible for managing the Bank's affairs, other than in the formulation of monetary policy. This includes determining the Bank's objectives and strategy, and aiming to ensure the most efficient use of the Bank's resources. NedCo has responsibility for reviewing the Bank's performance in relation to its objectives and strategy, monitoring the extent to which the Bank's financial management objectives are met, and reviewing the Bank's internal controls. The Chancellor appoints the chairman of NedCo.

31. Part 2 of the Act sets out Monetary Policy arrangements. The Act establishes a Monetary Policy Committee (MPC), and sets a framework for its operations. The Treasury's role is limited to the specification of the price stability target and what the economic policy of the Government is. The Chancellor directly appoints four external members of the MPC.

32. The statutory provisions are supplemented at an operational level with several written memoranda of understanding and service level agreements setting out definitions of how the relationship functions across different areas, and the duties and responsibilities of key players.

Royal Mint

33. The Treasury has both a shareholding and a customer relationship with the Royal Mint.

34. It has formally delegated the operation of its shareholder interest to the Shareholder Executive. The exact nature of this delegation and the relative involvement of Shareholder Executive officials with the Royal Mint and with the Treasury is set out in the Delegated Remit. The Shareholder Executive will provide full information to the Financial Secretary to the Treasury (FST) on the Royal Mint's financial performance – both achieved and prospective – twice each year. It will also agree governance arrangements (including board appointments) and performance targets with the FST. No member of staff from the Treasury or Shareholder Executive sits on the board of the Royal Mint.

35. The customer relationship is governed by a Service Level Agreement that sets out the arrangements for the supply of UK coinage.

OGC Buying Solutions

36. OGC Buying Solutions (OGCb.s) is a trading fund and an Executive Agency of the Office of Government Commerce (OGC), which is itself an Office of the Treasury. The OGC Chief Executive is on the Treasury's Management Board, approves OGCb.s' corporate plan, and recommends its key performance targets to the Chief Secretary to the Treasury. The OGC Executive Director of Smarter Procurement sits as a Non-Executive on the OGCb.s Board.

37. The relationship between the Treasury and OGCb.s, much of which is conducted through OGC, is laid out in the Agency Framework document and subject to periodic review. The Framework document sets out the broad aims and objectives of OGCb.s – namely its support in delivering joint Treasury-OGC PSA targets and broader mandate to improve value for money in the public sector through effective and efficient procurement and supply of goods and services – in addition to the process for appointing the Chief Executive, who is also the Accounting Officer. Within the context of delivering on its targets, OGCb.s has flexibility in determining how it spends its delegated resources, subject to the Return on Capital Employed requirement of 6.5%, as outlined in the corporate plan.

38. The management of OGCb.s' risks is the responsibility of its Accounting Officer. The Treasury's available input channels are via the OGC Chief Executive's representation on the Treasury's Management Board and regular meetings with the Treasury Permanent Secretary, and the Chief Secretary's chairmanship of the OGC Supervisory Board.

Partnerships UK (PUK)

39. Partnerships UK (PUK) is the successor body of the Treasury Taskforce. Created in 2000 as a central support body for the UK's Private Finance Initiative with a specific public sector mission. The private sector has a 51% majority shareholding in the company, and the public sector has a 49% investment (HMT 44.56%, Scottish Executive 4.44%).

40. The Treasury has two relations with PUK – one as a major shareholder and secondly as a customer of PUK services. In accordance with sections 6.1 and 6.5 of the CGCGP, the Treasury's two functions are separately administered. The Treasury's shareholder function in PUK is covered by the Shareholder Executive (ShEX) and HM Treasury's Memorandum of Understanding. This establishes that ShEX manages HM Treasury's financial interests and governance aspects in relation to PUK, while HM Treasury retains the lead on policy and client related issues.

41. The Treasury's client relationship with PUK is governed by a five-year Framework Agreement, last agreed in 2005, under which an annual budget for PUK services over each of the years of the contract term is established.

42. The Treasury's obligations in relation to risk management (section 6.4 of CGCGP) are covered through two arrangements; one through its shareholder rights, and secondly through the Advisory Council. The Treasury's shares in PUK give the Treasury the right to nominate two Non-executive Directors to sit on the PUK Board which meets monthly (with separate meetings of the Investment, Audit and Remuneration Committees). The Non-executive Directors ensure that HMT can monitor and influence strategic direction as well as the delivery of financial objectives and value for money.

43. The Treasury also coordinates the Advisory Council, which is currently chaired by HM Treasury's Permanent Secretary, and consists of representatives from Government Departments, the Devolved Administrations, local authorities and other public bodies. The role of the Advisory Council is to advise the Treasury on whether PUK is achieving its public sector mission. The Advisory Council meets twice a year and produces a report on PUK's activities which is published by the Treasury.

Pool re

44. Pool re is responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain. Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Statistics Commission

45. As per section 6.1 of the CGCGP, the relationship between the Treasury's Management Board and the Statistics Commission is conducted in accordance with a written agreement setting out clear definitions of how the relationship functions, and the duties and responsibilities of key players. It is formed of two parts: a Financial Memorandum, and a Management Memorandum (which together set out the broad framework under which the Statistics Commission operates).

46. As set out in the *Framework for National Statistics* (2000), the Statistics Commission is independent and has freedom in the way it operates (subject to the provisions of the Financial and Management memoranda), including flexibility to determine how it spends its resources, and how it selects and deploys its secretariat (paragraph 4.2.4). As such, there is no Treasury representation on the Statistics Commission Board.

47. The Treasury's obligations in relation to the management of risk (set out in section 6.4 of the Code) are met via formal, quarterly liaison meetings between the Chief Executive of the Commission and the Treasury's Director of Macroeconomics. In addition, there is a nominated Treasury official for handling day-to-day issues with the Commission as and when they arise. The Treasury Board is informed of the Commission's work on an ad hoc basis, including through the opportunity to consider the Commission's work programme and Annual Report to Parliament (both of which are finalised with the input of senior Treasury personnel).

Nicholas Macpherson
Permanent Secretary 26 June 2006

STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, 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.

HM Treasury has appointed the Permanent Secretary as Principal Accounting Officer of the department with overall responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Principal Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by HM 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 Government Financial Reporting 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. These appointments do 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 (John Oughton) 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 an Accounting Officer is answerable, for keeping proper records and for safeguarding the department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting. Under the terms of the Accounting Officers' Memorandum, the relationship between the department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in writing.

STATEMENT ON INTERNAL CONTROL 2005-06

Scope of responsibility

1. As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HM Treasury Group policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

2. The Treasury has three distinct operating units:

- The core of the department is managed by the Permanent Secretary supported by the Treasury Board (which is also responsible for Group strategic performance and risk management) that includes the Permanent Secretary, OGC Chief Executive, five Managing Directors, the Director of Operations of the core Treasury, the Director of Policy and Planning and five non-executive Directors. The Chancellor is the responsible Minister supported by his Ministerial team comprising the Chief Secretary, the Paymaster General, the Financial Secretary and the Economic Secretary.
- 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 in this role. 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 the DMO's Framework Document.
- The Office of Government Commerce (OGC) is an independent office of the Treasury with its own Chief Executive (at Permanent Secretary level, who is also an Additional Accounting Officer) and Executive Board. The Financial Secretary is the responsible Minister.

3. 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. In their capacity as Additional Accounting Officers the Chief Executives of both the OGC and DMO provide me with separate Statements on Internal Control, upon which I place reliance when signing this statement.

The purpose of the system of internal control

4. The system of internal control is designed to manage risk to a reasonable level rather than completely to eliminate it. It can therefore only provide reasonable and not absolute assurance of effectiveness to achieve policies, aims and objectives.

5. The system of internal control is based on a process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and their associated impact, and to manage them efficiently, effectively and economically.

6. Subject to the changes described in paragraph 22 the system of internal control has been in place in HM Treasury for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts. Throughout the year, the system has complied with Treasury guidance.

Capacity to handle risk

Leadership

7. The Treasury Board has overall responsibility for strategic Group risks. These are regularly reviewed. The Board's risk register is informed by all organisations within the Group. Treasury Board risks are cascaded into organisational risk registers where appropriate.

8. The capacity to handle risk in DMO and OGC is covered below. The following paragraphs in this section refer to core Treasury's capacity to handle risk.

Risk Management Framework

9. The Treasury's risk management framework was published in 2001. The framework is supplemented by a requirement, set out in the Directorate business plan guidance, to record risk associated with work that contributes to Treasury policies, aims and objectives. Senior management in Treasury are committed, through use of risk registers, to ensuring that risks are identified, assessed, managed and reviewed; and used as part of on-going management discussions across the organisation.

10. During the period of this SIC, an annual internal audit of risk management was undertaken, in line with Government Audit Standards. The audit made a series of recommendations that are currently being addressed as part of our focus on continuous improvement in this area.

Staff training

11. Risk awareness is embedded in Treasury training courses where relevant. This includes risk management, investment appraisal and economic and financial appraisal techniques for assessing capital projects. Risk management is also covered in project management training courses, including newly developed policy specific project training.

Project management

12. The Treasury's project management centre provides support to teams via a central resource of skills and knowledge. This focuses on IS procurement projects and policy, including recently introduced policy specific project tools. This includes specific guidance on appropriate project processes and tools, including risk management. Programme and project management disciplines are used for the Budget and other key projects. Directorates and teams increasingly use project management methodology when initiating policies, programmes and projects, and this includes the assessment of risk at project or team level.

The risk and control framework

13. HM Treasury aims to manage risks at the lowest level at which they are controllable. At the apex of the risk and control framework is the Treasury Board.

14. The Treasury Board also has a programme of regular horizon scanning in order to identify possible future events that may impact on the Group objectives, and put in place means of mitigating any associated risks.

15. HM Treasury has a number of Public Service Agreements against which its performance is measured. Each Public Service Agreement (PSA) target owner also reports on progress to the Treasury Board on a quarterly basis highlighting targets that are at risk.

16. The Treasury Board manages risks associated with its objectives as shown in the management commentary.

17. Individual organisations within the Group have their own risk and control frameworks. These are detailed below. Towards the end of the SIC period, Treasury Group has sought to review risk and control frameworks in a wider Group context. This will continue in 2006-7.

Core Treasury

Operations, Finance and Audit Committees

18. Two sub-committees – Finance Committee and Operations Committee – meet monthly, supporting the Treasury Board in its functions. Committee membership comes from Treasury Managing Directors, Directors and Head of Finance.

19. These committees are accountable to the Board for financial and operational issues and decisions, and assess financial and management information. The committees bring greater focus and expertise to important decisions on Treasury resource management and operations.

20. Both committees maintain risk registers on behalf of the Board, which are focused on their finance and operations remits.

21. The audit committee considers governance, internal control and risk management. Its membership includes two non-executives including the Chair. The Chair is a member of the Treasury Board. The Accounting Officer attends each meeting, as do the Finance Director and Head of Internal Audit. The audit committee meets 4 times a year.

22. Towards the end of the SIC period these committees have sought to review their remits in a wider Treasury Group context. This will continue in 2006-7.

Executive Management Group (EMG) & Treasury Directorates

23. The EMG is responsible for the day to day running of core Treasury, deliberating on operational and policy issues, including taking urgent decisions on behalf of the Treasury Board between Board meetings. EMG meets weekly and is assisted in its work by maintenance of a risk register. This is reviewed regularly.

24. The core Treasury is organised into operational directorates that carry main responsibility for major areas of work:

- budget, tax and welfare;
- finance and industry;
- government financial management;
- macroeconomic policy and international finance;
- public services; and
- Ministerial and Corporate Services – which provides corporate services, services to Ministers and legal advice.

25. Each directorate maintains a risk register that forms part of its business plan, which is monitored and maintained by directorate management teams during the year.

26. Many aspects of the core Treasury's internal organisation are designed specifically to manage strategic risks to our objectives. For example, financial risk on the public expenditure side is managed in the public services directorate by a system based on teams for each major spending department and a central team, which oversees the whole. Spending plans are set with prudent reserves, calls on which are managed by a monthly reporting system from the spending teams to the central team. The identified residual risk is managed at the appropriate level.

Internal financial controls

27. Risks to the Treasury's internal financial controls are reviewed as part of the devolved business planning process, with particular attention paid to risks with a high potential financial impact.

28. Within directorates, effective role definitions are in place for Directorate Coordinator and Budget Liaison Officer roles, and responsibility for budgets is appropriately delegated.

29. The Treasury's Finance team issues guidance on the budgetary process, and supports and challenges directorate budget setting, forecasting and reporting. The Finance team prepares monthly reports for the Finance Committee and these are copied to the Treasury Board. Quarterly reports on performance including finance are also provided to the Treasury Board. These reports are drawn from

the integrated financial management information system, from which Directorate Co-ordinators and budget holders also draw management reports for devolved reporting.

Significant internal control issues 2005-6

30. No significant internal control issues were identified in 2005-6.

Risk Improvement Manager

31. The Treasury has a Risk Improvement Manager who acts as the co-ordination point between the Treasury and the Government's central risk team, cascading information to the organisation when appropriate.

OGC

32. Within the OGC risk is controlled at various levels throughout the organisation. The OGC Board owns the OGC's high level/strategic risks, with Board members responsible for cascading these risks down within their own Directorate. Throughout the year, each risk is actively reviewed to provide assurance that the necessary mitigation action is being taken and that it is effective. The registers are also reviewed regularly to ensure that new risks are identified and to eliminate risks that are no longer relevant. OGC Board has published a risk appetite statement, which was promulgated across the whole organisation.

DMO

33. The DMO has various formal mechanisms for managing the DMO's risks. A strong risk management culture is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO's risk management strategy seeks to maintain a strong risk management culture by linking organisational objectives to the business planning process. Organisational objectives cascade down to individual objectives and job descriptions. All teams have documented procedures for their main activities. Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. Key risks and exceptions are documented in a regular report produced by the Risk Management Unit for the Risk Committee and the Managing Committee.

Review of effectiveness

34. As Accounting Officer, my review of the effectiveness of the system of internal control is informed by the work of executive managers across the group who have delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Board and group Audit Committees, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place.

35. Mechanisms to ensure effective management of risk and the ongoing review of the effectiveness of the risk management system, across the Group, are provided by the:

Board and Departmental management structure

- The Treasury Board meets six times a year to consider the plans and strategic direction of the Department;
- OGC and DMO have control and risk framework structures as detailed in their respective Statements on Internal Control.
- The Treasury Board maintains a core Treasury risk register and reviews this regularly;

- The core Treasury Finance and Operations sub-committees maintain more detailed risk registers on behalf of the Board, focused on their finance and operations remits;
- There are regular progress reports to the Treasury Board from managers responsible for the Treasury's PSA targets, which include the steps they are taking to meet key performance indicators and manage risks in their areas of responsibility;
- The Board receives quarterly performance reports covering finance, efficiency, HR and other corporate information;
- Core Treasury directorates have plans which identify and keep up to date the key risks they face;
- I meet core Treasury Managing Directors twice yearly to review directorate work plans and risks;
- There is regular monitoring of key operational information technology and information systems projects, in line with OGC guidance; and
- I have regular meetings with the Chief Executives of the OGC and DMO.
- In 2006-7, further work will be undertaken to strengthen Group governance in light of the Comprehensive Spending Review and SR04 efficiency requirements.

Audit Committee & Internal Audit

36. In addition, within the core Treasury, the effectiveness of the Department's risk management, control and governance processes is reviewed as part of Treasury Internal Audit's annual work plan. The Audit Committee approves the internal audit work plans, and the Committee reviews all internal audit reports. The reports include an opinion on the adequacy and effectiveness of the system of internal control, and make recommendations for improvement. 20 reports were considered by the audit committee in 2005-6. The Committee has asked for increased focus on audit follow up activity in the coming year.

37. In the reporting period, an independent external quality assurance review confirmed that core Treasury Internal Audit operates to Government Internal Audit Standards. The Internal Audit team has direct access to the Accounting Officer.

38. The overall opinion of the Head of Internal Audit (HIA) arising from the work completed in 2005-06 is that on the basis of the work undertaken in the period the HIA is able to provide positive assurance as to the risk management, control and governance framework within HM Treasury. It is the HIA's opinion that there are no matters arising from the work of internal audit in the period that would give rise to a separate comment in the Statement on Internal Control.

39. The Chair of the Audit Committee has regular meetings with the Permanent Secretary. The Head of Internal Audit attends the Audit Committee meetings of core Treasury, the OGC and the DMO.

Nicholas Macpherson
Permanent Secretary 26 June 2006

MINISTERS AND SENIOR MANAGERS REMUNERATION REPORT

1. Remuneration policy

The remuneration of the Permanent Secretary, Second Permanent Secretary and Chief Executive of the OGC is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining members of the Treasury Board and the Chief Executive of DMO remuneration is determined by HM Treasury's Pay Committee in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

The Review Body on Senior Salaries advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

2. Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit and on the basis of fair and open competition, but also includes details of the circumstances when appointments may otherwise be made.

The Permanent Secretary and Chief Executive of the OGC are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. Other senior managers, including the Chief Executive of the DMO and Non Executive members of the Board are appointed by the Permanent Secretary.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. The rules for termination are set out in chapter 11 of the Civil Service Management Code. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. During the year no compensation was paid to any of the senior management.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Independent Non Executive members of the Board are recruited through fair and open competition. All Non Executive members of the Board are appointed by the Permanent Secretary. Non Executive members of the Board are appointed for an initial period of three years with an option to extend for a further three years. These appointments can be terminated with one month's notice period. There is no provision for compensation for early termination.

3. Salaries and pension entitlements of HM Treasury Ministers and Senior Management

The following sections provide details of the salaries and pension entitlements of the most senior civil servants as a result of their employment by HM Treasury, and those of Ministers who have a direct influence on managing or controlling the activities of the Treasury.

Salaries

3.1.1 Salaries of Ministers

	2005-06		2004-05	
Name	Salary (£)	Benefits in kind (rounded to nearest £100)	Salary (£)	Benefits in kind (rounded to nearest £100)
Gordon Brown *Chancellor of the Exchequer*	74,902	7,500	72,862	7,300
Des Browne *Chief Secretary to the Treasury (from 9-5-05)*	58,636 (74,902 – full year equivalent)	–	–	–
Paul Boateng *Chief Secretary to the Treasury (to 5-5-05)*	25,974 (74,902 – full year equivalent)	–	72,862	–
Dawn Primarolo *Paymaster General*	38,854	–	37,796	–
Stephen Timms Financial Secretary to the Treasury (to 5-5-05)	6,476 (38,854 – full year equivalent)	–	15,748	–
John Healey *Financial Secretary to the Treasury (from 9-5-05)*	34,702 (38,854 – full year equivalent)	–	–	–
Economic Secretary to the Treasury (to 5-5-05)	3,151 (29,491 – full year equivalent)	–	28,688	–
Ivan Lewis *Economic Secretary to the Treasury (from 9-5-05)*	24,562 (29,491 – full year equivalent)	–	–	–
Ruth Kelly *Financial Secretary to the Treasury (to 9-5-04)*	–	–	18,898	–

3.1.2 Salaries of Senior Management

Name	2005-06 Salary including performance pay (£)	2005-06 Benefits in kind (rounded to nearest £100)	2004-05 Salary including performance pay (£)	2004-05 Benefits in kind (rounded to nearest £100)
Nicholas Macpherson *Permanent Secretary (from 2-8-05)*	100 – 105 (155 – 160 – full year equivalent)	15,700	–	–
Managing Director (to 1-8-05)	55 – 60 (125 – 130 – full year equivalent)	–	125 – 130	–
Sir Gus O'Donnell *Permanent Secretary (to 31-7-05)*	75 – 80 (175 – 180 – full year equivalent)	7,500	180 – 185	20,700
John Oughton *Chief Executive OGC*	135 – 140	18,300	120 – 125	17,900
Jon Cunliffe *Second Permanent Secretary (from 16-11-05)*	45 – 50 (130 – 135 – full year equivalent)	–	–	–
Managing Director (to 15-11-05)	85 – 90 (120 -125 – full year equivalent)	–	120 – 125	–
Sir Nicholas Stern *Non-Executive Member (from 13-12-05)*	Nil	–	–	–
Second Permanent Secretary (to 13-10-05)	95 – 100 (160 – 165 – full year equivalent)	–	160 – 165	–
Sam Beckett *Director of Operations (part- time basis)* *(maternity leave from 9-5-05 to 21-12-05)*	55 – 60 (full year equivalent 75 – 80)	–	20 – 25 (60 – 65 – full year equivalent)	–
Hilary Douglas *Managing Director (to 30-11-04)*	–	–	75 – 80 (115 – 120 – full year equivalent)	–
Michael Ellam Director of Policy and Planning (from 2-8-05)	50 – 55 (75 – 80 – full year equivalent)	–	–	–
Tamara Finkelstein *Interim Director of Operations* *(from 9-5-05 to 6-10-05)*	30 – 35 (75 – 80 – full year equivalent)	–	–	–
Mary Keegan *Managing Director*	160 – 165	–	85 – 90 (150 -155 – full year equivalent)	–
John Kingman *Managing Director (from 10-1-06)*	20 – 25 (90 – 95 – full year equivalent)	–	–	–
Mark Neale *Managing Director (from 12-12-05)*	25 – 30 (105 – 110 – full year equivalent)	–	–	–
Sue Owen *Interim Director of Operations* *(from 10-10-05 to 8-1-06)*	15 – 20 (75- 80 – full year equivalent)	–	–	–
James Sassoon Managing Director (to 10-1-06)	135 – 140 (165 – 170 – full year equivalent)	–	165 – 170	–
Jonathan Stephens Managing Director	115 – 120	–	70 – 75 (105 -110 – full year equivalent)	–
Robert Stheeman *Chief Executive DMO*	120 – 125	–	120 – 125	–

The full year equivalent salary figures above do not include anything in respect of bonuses.

3.1.2 Fees of Non-Executives

Name	2005-06 Fees (£k)	2005-06 Benefits in kind (rounded to nearest £100)	2004-05 Fees (£k)	2004-05 Benefits in kind (rounded to nearest £100)
Margaret Exley *Non-Executive Member (to 31-3-05)*	–	–	5 – 10	–
Sir Peter Gershon *Non-Executive Member*	5 – 10	–	5 – 10	–
Stella Manzie *Non-Executive Member (from 1-6-05)*	5 – 10	–	–	–
William Sargent *Non-Executive Member (from 1-6-05)*	5 – 10	–	–	–
Sir David Varney *Non-Executive Member*	Nil	–	Nil	–

Sir Nicholas Stern stood down from his duties as an Executive Member of the Treasury Board and as Second Permanent Secretary on taking up his new role as Head of the Stern Review and Adviser to the Government on the Economics of Climate Change and Development on 13 October 2005. He remains as Head of the Government Economic Service and on the Treasury Board as a Non Executive Member, for which he is not remunerated. From 13 October 2005 to end 31 March 2006 (i.e. end of FY) the Treasury met Sir Nicholas's salary costs of £75k – £80k.

James Sassoon was a Managing Director of HM Treasury until 10 January 2006 and an employee until 8 March 2006, continuing thereafter as a member of the Core Treasury's Audit Committee. He took up his new role as the Chancellor's representative for promotion of the City in January 2006.

In addition to being a Non Executive Member of the Treasury Board, William Sargent was also chairman of the Audit Committee from 8 December 2005 – for which he received remuneration of £0k – £2.5k.

The fees in respect of Stella Manzie's role as a Non Executive were paid to Coventry City Council.

3.1.3 Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This report 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 (£59,095, 2004-05 £57,485) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is therefore shown in full in the figures above.

3.1.4 Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits in kind disclosed above for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street. Those for the Permanent Secretary and Chief Executive of the OGC relate to the private use of an allocated car in the circumstances permitted by the Civil Service Management Code. 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.

3.2 Pension entitlements and scheme

3.2.1 Pension entitlements and schemes: Departmental Ministers

Name	Total accrued pension at age 65 at 31/03/06 (£k)	Real increase in pension at age 65 (£k)	CETV at 31/03/06 or end date (nearest £k)	CETV at 31/03/05 or start date (nearest £k)	Real increase in CETV (nearest £k)
Gordon Brown *Chancellor of the Exchequer*	15 – 20	0 – 2.5	205	172	18
Des Browne *Chief Secretary to the Treasury (from 9-5-05)*	0 – 5	0 – 2.5	48	35	7
Paul Boateng *Chief Secretary to the Treasury (to 5-5-05)*	5 – 10	0 – 2.5	120	117	2
Dawn Primarolo *Paymaster General*	5 – 10	0 – 2.5	103	81	14
Stephen Timms *Financial Secretary to the Treasury (to 5-5-05)*	5 – 10	0 – 2.5	57	56	1
John Healey *Economic Secretary to the Treasury (to 5-5-05)* *Financial Secretary to the Treasury (from 9-5-05)*	0 – 5	0 – 2.5	33	23	5
Ivan Lewis *Economic Secretary to the Treasury (from 9-5-05)*	0 – 5	0 – 2.5	26	19	3

3.2.1.i Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 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 all other members of the PCPF, can opt to increase their accrual 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 MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

3.2.1.ii The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

3.2.1.iii The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

3.2.2 Pension entitlements and schemes: Senior Management

Name	Total accrued in pension at age 60 at 31/03/06 and related lump sum (£k)	Real increase in pension and related lump sum at age 60 (£k)	CETV at 31/03/06 or end date (to nearest £k)	CETV at 31/03/05 or start date (to nearest £k)	Real Increase in CETV (to nearest £k)
Nicholas Macpherson *Permanent Secretary (from 2-8-05)* *Managing Director (to 1-8-05)*	35 – 40 plus lump sum 115 – 120	10 – 12.5 plus lump sum 30 – 32.5	642	354	171
Sir Gus O'Donnell *Permanent Secretary* *(to 31-7-05)*	60 – 65 plus lump sum 190 – 195	0 – 2.5 plus lump sum 2.5 – 5	1,139	1,024	29
John Oughton *Chief Executive OGC* *(from 1-4-04)*	50 – 55 plus lump sum 150 – 155	0 – 2.5 plus lump sum 0 – 2.5	982	769	19
Jon Cunliffe *Second Permanent Secretary (from 16-11-05)* *Managing Director (to 15-11-05)*	40 – 45 plus lump sum 120 – 125	2.5 – 5 plus lump sum 10.0 – 12.5	795	573	71
Sir Nicholas Stern *Second Permanent Secretary (to 13-10-05)*	65 – 70	2.5 – 5	1,391	1,153	96
Sam Beckett *Director of Operations* *(part time basis) (maternity leave from 9-5-05 to 21-12-05)*	15 – 20 plus lump sum 45 – 50	0 – 2.5 plus lump sum 5 – 7.5	212	130	29
Michael Ellam *Director of Policy and Planning* *(from 2-8-05)*	10 – 15 plus lump sum 35 – 40	0 – 2.5 plus lump sum 0 – 2.5	151	111	8
Tamara Finkelstein *Interim Director of Operations* *(from 9-5-05 to 6-10-05)*	10 – 15 plus lump sum 35 – 40	0 – 2.5 plus lump sum 2.5 – 5	148	119	15
Mary Keegan *Managing Director*	0 – 5	0 – 2.5	48	14	27
John Kingman *Managing Director (from 10-1-06)*	10 – 15 plus lump sum 40 – 45	0 – 2.5 plus lump sum 0 – 2.5	185	168	9

Name	Total accrued in pension at age 60 at 31/03/06 and related lump sum (£k)	Real increase in pension and related lump sum at age 60 (£k)	CETV at 31/03/06 or end date (to nearest £k)	CETV at 31/03/05 or start date (to nearest £k)	Real Increase in CETV (to nearest £k)
Mark Neale *Managing Director (from 12-12-05)*	30 – 35 plus lump sum 100 – 105	0 – 2.5 plus lump sum 0 – 2.5	602	536	12
Sue Owen *Interim Director of Operations (from 10-10-05 to 8-1-06)*	25 – 30 plus lump sum 85 – 90	0 – 2.5 plus lump sum 0 – 2.5	535	497	6
James Sassoon *Managing Director (to 10-1-06)*	5 – 10	0 – 2.5	91	50	23
Jonathan Stephens *Managing Director*	30 – 35 plus lump sum 95 – 100	2.5 – 5 plus lump sum 7.5 – 10.0	531	366	43
Robert Stheeman *Chief Executive DMO*	5 – 10	0 – 2.5	79	41	21

3.2.2.i Civil Service pensions

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). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic 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. For premium, 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 give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

3.2.2.ii Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

3.2.2.iii Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Nicholas Macpherson
Permanent Secretary

26 June 2006

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

I certify that I have audited the financial statements of HM Treasury for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report 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 to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 22 to 26 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Management Commentary, the Statement of Treasury Group Compliance with Corporate Governance Code of Good Practice and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; 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
Comptroller and Auditor General

28 June 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The maintainance and integrity of the HM Treasury website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

Statement of Parliamentary Supply
for the year ended 31 March 2006

		2005-06							2004-05
		Estimate			Outturn				Outturn
	Note	Gross expenditure	A in A	Net Total	Gross expenditure	A in A	Net total	Net Total Outturn compared with Estimate: saving/ (excess)	Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	3	245,280	(17,715)	227,565	225,013	(17,326)	207,687	19,878	196,738
Request for Resources 2	3	36,747	(500)	36,247	33,835	(500)	33,335	2,912	34,818
Request for Resources 3	3	71,649	(15,009)	56,640	70,216	(15,009)	55,207	1,433	35,501
Total Resources	**3**	**353,676**	**(33,224)**	**320,452**	**329,064**	**(32,835)**	**296,229**	**24,223**	**267,057**
Non-Operating Cost A in A				1,380			1,380	–	11,550
Net Cash Requirement	**5**			**224,846**			**204,604**	**20,242**	**190,988**

Summary 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 2005-06		**Outturn 2005-06**	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Total (Note 9.2)	93,891	*84,341*	97,106	*88,937*

Explanations of variance between Estimate and outturn are given in Note 3.

The notes on pages 44 to 78 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

		2005-06		2004-05 (restated)	
		Core Treasury	Group Total	Core Treasury	Group Total
	Note	£000	£000	£000	£000
Administration costs					
Staff costs	6	62,354	92,679	59,529	82,493
Other administration costs	7	48,376	88,773	45,678	80,016
Gross administration costs before exceptional items		**110,730**	**181,452**	**105,207**	**162,509**
Operating income	9	(5,362)	(24,643)	(4,404)	(20,299)
Net administration costs before exceptional items		**105,368**	**156,809**	**100,803**	**142,210**
Exceptional item – profit on sale	7	–	–	(8,175)	(8,168)
Exceptional item – building revaluation	7	(4,858)	(4,858)	(10,908)	(10,908)
Net administration costs after exceptional items		**100,510**	**151,951**	**81,720**	**123,134**
Programme costs					
Request for Resources 1: Core Treasury and DMO					
Expenditure	8	103,813	107,635	107,280	108,557
Less: income	8 & 9	(84,902)	(88,362)	(62,069)	(62,920)
		18,911	**19,273**	**45,211**	**45,637**
Request for Resources 2: Coinage					
Expenditure	8	33,835	33,835	35,047	35,047
Less: income	8 & 9	(908)	(908)	(704)	(704)
		32,927	**32,927**	**34,343**	**34,343**
Request for Resources 3: OGC					
Expenditure	8	–	11,000	–	2,421
Less: income	8 & 9	–	(2,017)	–	(6,224)
Expenditure outside supply process		**–**	**8,983**	**–**	**(3,803)**
Banking and gilts registration services	3.4	10,415	10,415	15,200	15,200
Net programme costs		**62,253**	**71,598**	**94,754**	**91,377**
Total net operating costs		**162,763**	**223,549**	**176,474**	**214,511**

Comparators for 2004-05 have been restated as a result of the new format of the accounts (note 1), a change in accounting policy (note 1.7(ii)) and a transfer of function (note 2).

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

		2005-06		2004-05 (restated)	
		Core Treasury	Group Total	Core Treasury	Group Total
	Note	£000	£000	£000	£000
Net gain/(loss) on revaluation of tangible fixed assets	11	–	1,150	(695)	(357)
Net gain on revaluation of fixed investments	13	101,293	101,293	38,049	38,049
Net gain on revaluation of current investments		–	–	122	122
Net gain on revaluation of surplus freehold property	14	–	–	–	8,504
Other recognised gains for the financial year		**101,293**	**102,443**	**37,476**	**46,318**

The notes on pages 44 to 78 form part of these accounts.

Balance Sheet
as at 31 March 2006

		2006		2005 (restated)	
		Core Treasury	Group Total	Core Treasury	Group Total
	Note	£000	£000	£000	£000
Fixed assets					
Tangible assets	11	101,231	113,006	98,005	108,002
Intangible assets	12	548	3,082	714	3,160
Investments	13	1,758,025	1,764,270	1,656,732	1,665,356
Total fixed assets		**1,859,804**	**1,880,358**	**1,755,451**	**1,776,518**
Debtors: falling due after more than one year	16	6,652	6,661	6,388	6,667
Current assets					
Surplus freehold property	14	–	–	–	13,000
Stocks	15	565	565	287	287
Debtors: due within one year	16	53,226	59,654	44,505	54,929
Cash at bank and in hand	17	3,721	7,057	20,504	28,802
Total current assets		**57,512**	**67,276**	**65,296**	**97,018**
Creditors: amounts falling due within one year	18	(80,859)	(97,604)	(82,860)	(106,012)
Net current liabilities		**(23,347)**	**(30,328)**	**(17,564)**	**(8,994)**
Total assets less current liabilities		**1,843,109**	**1,856,691**	**1,744,275**	**1,774,191**
Creditors: amounts falling due after more than one year	18	(150,468)	(150,468)	(147,159)	(147,427)
Provisions for liabilities and charges	19	(3,177)	(14,075)	(3,888)	(16,111)
Net Assets		**1,689,464**	**1,692,148**	**1,593,228**	**1,610,653**
Taxpayers' equity					
General fund	20	1,244,340	1,243,907	1,249,399	1,254,102
Revaluation reserve	21	445,124	448,241	343,829	356,551
		1,689,464	**1,692,148**	**1,593,228**	**1,610,653**

Nicholas Macpherson
Permanent Secretary

26 June 2006

The notes on pages 44 to 78 form part of these accounts.

Consolidated Cash Flow Statement
for the year ended 31 March 2006

	Note	**2005-06** £000	**2004-05** (restated) £000
Net cash outflow from operating activities	**22.1**	**(124,774)**	**(123,703)**
Cash inflow from capital expenditure and financial investment	22.2	10,415	20,349
Payments of amounts due to the Consolidated Fund		(110,032)	(71,365)
Financing	22.4	202,646	185,305
(Decrease)/increase in cash in the period	**22.5**	**(21,745)**	**10,586**

The notes on pages 44 to 78 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006

Aim: To raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all.

	2005-06			2004-05 (restated)		
	Gross Expenditure	Income	Net	Gross Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
Objectives:						
(1)	140,843	(40,857)	99,986	152,190	(30,621)	121,569
(2)	10,846	(781)	10,065	11,969	(482)	11,487
(3)	55,535	(53,452)	2,083	52,963	(37,407)	15,556
(4)	10,304	(667)	9,637	9,856	(139)	9,717
(5)	18,192	(1,230)	16,962	14,613	(521)	14,092
(6)	89,616	(18,302)	71,314	66,508	(20,580)	45,928
(7)	9,952	(497)	9,455	8,998	(342)	8,656
(8)	2,972	(126)	2,846	1,900	(41)	1,859
(9)	6,077	(18)	6,059	4,737	(14)	4,723
Exceptional items	(4,858)	–	(4,858)	(19,076)	-	(19,076)
Net operating cost	**339,479**	**(115,930)**	**223,549**	**304,658**	**(90,147)**	**214,511**

The department's objectives were as follows:

Objective 1 Maintaining a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability;

Objective 2 Increase the productivity of the economy and expand economic and employment opportunities for all;

Objective 3 Promote efficient, stable and fair financial markets for their users and the economy;

Objective 4 Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest;

Objective 5 Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the very vulnerable;

Objective 6 Improve the quality and cost effectiveness of public services;

Objective 7 Achieve world-class standards of financial management in government;

Objective 8 Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;

Line 9 Other resources required not falling under HM Treasury's eight main objectives.

The objectives have been revised and as a result the prior year figures have been restated.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives
(continued)

Where direct expenditure or income falls under a single objective, it is allocated wholly to that objective; expenditure and income that serves more than one objective is allocated in accordance with estimates made by relevant managers within the department. Central expenditure not specific to individual objectives has been apportioned in proportion to directly allocated costs. The other resources not falling under the eight main objectives include the grants to the Parliamentary bodies and the Statistics Commission (£4m) and the salary costs of the Prime Minister and the Government Whips.

The costs allocated to Objective 1 are coinage including cost of capital charges on the Royal Mint (together £33.3m in 2005-06 and £34.8m in 2004-05), half of the net cost of investment in the Bank of England (£18m in 2005-06 and £28.4m in 2004-05), and banking and gilts registration services (£10.4m in 2005-06 and £15.2m in 2004-05), as well as the direct costs of the Debt Management Office, core Treasury policy team costs and apportioned central costs. The £21.6m reduction in resources attributable to Objective 1 over the two years is mainly made up of the three quantified items.

Objective 3 includes the other half of the net cost of investment in the Bank of England (£18m in 2005-06 and £28.4m in 2004-05). The £2.6m increase in gross expenditure in 2005-06 is caused by £4m extra spending on the marketing of stakeholder savings and investment products, offset by half of the reduction in the Bank of England cost of capital charge. The extra income attributable to Objective 3 in 2005-06 arises from the increase in the Pool Re reinsurance premiums from £17.5m to £29.4m (see note 9).

Objective 5 increased in 2005-06 because of the Treasury's costs of the UK's joint presidencies of the G7 and G8.

Objective 6 includes the direct net costs of the OGC. The factors behind changes in OGC's net costs are set out in the Management Commentary, paragraphs 35 to 36.

Details of programme grants and other current expenditure are given in note 23.

The notes on pages 44 to 78 form part of these accounts.

NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2005-06 **Government Financial Reporting Manual** (FReM) issued by HM Treasury (HMT). The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the Net Cash Requirement. The consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The Department's accounting policies have been applied consistently in dealing with items material in relation to the accounts.

As required by the FReM the format of these accounts has changed from 2004-05 and now shows the results of the Core Treasury (core Department) and the Group.

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 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 (core Treasury), its supply financed agency the Debt Management Office (DMO) and the Office of Government Commerce (OGC). The DMO produces and publishes its own accounts. The OGC maintains its own financial accounting records, providing data for input to the consolidated accounts.

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 report 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 the Department's resource accounts. They are, however, fully disclosed in the following accounts:

Consolidated Fund and National Loans Fund Accounts	International subscriptions
National Loans Fund Accounts and the Debt Management Account	Government Debt
Exchange Equalisation Account	Gold Reserves Foreign securities and currencies reserves IMF Special Drawing Rights

1.3 Tangible Fixed Assets

The threshold for capitalising tangible fixed assets is £5,000 except for antiques where no threshold is set.

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

Land and buildings are professionally valued every five years or when material changes are known to have arisen. In the intervening years revaluations are effected by professional review or calculated using indices.

HM Treasury's land and buildings at 1 Horse Guards Road was professionally valued as at 31 March 2006.

Furniture and equipment and IT equipment are stated at the depreciated current cost based on indices.

Antiques in use are stated at estimated market value as at 31 March 2006.

The revaluation of other fixed assets has been calculated in line with the indices provided by HM Treasury in PES (2006) 02 Updated Forecast Indices for Assets or the Office for National Statistics in their publication 'Price index numbers for current cost accounting', where the former are not appropriate.

1.4 Intangible Fixed Assets

These represent software licences, which are stated at depreciated current cost based on indices. The revaluation has been calculated in line with the indices provided by HM Treasury in PES (2006) 02 Updated Forecast Indices for Assets.

The threshold for capitalising intangible fixed assets is £5,000.

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
Other plant and machinery	10 to 15 years

Deprecation is charged in the month following acquisition up to the month prior to disposal.

1.6 Development Expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the FReM, which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.

1.7 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 and bonds held in Partnerships UK are shown as at nominal value;

(ii) The investment in the Bank of England is shown as at 100% of the Bank's net assets as at 28 February in any year (the end of the Bank's accounting year). The Bank now prepares its accounts under International Financial Reporting Standards (IFRS), and as a result in 2005-06 revalued its own balance sheet as at 1 March (see Note 13.1). HMT have restated the opening value of their investment in the Bank based on the IFRS valuation as at 1 March 2005. This restatement has led to an increase in the opening value from £1,598m to £1,631m in HMT's accounts. The closing balance is in line with the Bank's valuation as at 28 February 2006.

(iii) The investment in Partnerships UK is shown at 44.56% of its net assets as at 31 March 2006.

1.8 Stocks

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.

1.9 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 of 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.

1.10 Administration and Programme Expenditure

The Operating Cost Statement (OCS) is analysed between administration and programme costs. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in Public Expenditure System paper PES (2004). 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.

Reversals of previous impairments and downward revaluations of fixed assets and investments are taken to the OCS to the extent that they increase the carrying amount of the fixed asset up to the amount that it would have been had the original impairment not occurred.

1.11 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 real rate set by HM Treasury, currently 3.5% (2004-05: 3.5%) on the average carrying amount of all assets less liabilities except for:

(i) where individual rates of return have been set for investments in the Bank of England (4.94%) (2004-05: 6%), the Royal Mint (3.5%) (2004-05: 7.8%) and OGCbuying.solutions (6.5%) (2004-05: 6.5%) which are applied to the underlying net assets of each body; in respect of the Royal Mint the cost of capital charge has been abated by the amount of interest payable on long term loans to the National Loans Fund;

1.11 Capital Charge (continued)

(ii) donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General where the charge is nil;

(iii) 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 is nil.

1.12 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.

1.13 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS), which are described in Note 6. The defined benefit schemes are unfunded and are contributory. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

1.14 Early Departure Costs

The department is required to meet the additional costs 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. 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 2.2% (2004-05: 3.5%) discount rate in line with HM Treasury guidance. 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.

1.15 Surplus Property for Disposal

The department holds one surplus long leasehold property for disposal, which is defined as an exploitable site. The property is recorded at zero value based on likely cost of disposal.

Leasehold Provisions

The leases on vacant leasehold properties are regarded as onerous contracts under Financial Reporting Standard (FRS 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 cash flows associated with the lease, discounted at 2.2% (2004-05: 3.5%).

1.16 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 FReM. Where the balance of risk and rewards of ownership of the PFI property are borne by the department, the department includes the asset on its balance sheet for the fair value of the property, with the associated 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. 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.

1.17 Operating leases

Operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease.

1.18 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 but which have been reported to Parliament in accordance with the requirements of Government Accounting. These comprise 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.

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.

1.19 Value Added Tax

Many 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.

2.0 TRANSFER OF FUNCTIONS FROM THE CABINET OFFICE

Responsibility for Government Social Research Unit (GSRU) has transferred from the Cabinet Office to the Treasury, resulting in 15 full time equivalent posts being transferred to the core Treasury during 2005-06. Following the disclosure requirements of FRS 6, the results, cash flows and assets relating to the transferred activities have been included from the start of the financial year. Prior year comparatives have been restated (note 20).

The direct cost of the function transferred to Request for Resource 1 were:-

	2005-06	**2004-05**
	£000	£000
Administration income	(150)	(145)
Staff costs	722	563
Other admin costs	317	164
Programme costs	–	10
Total	**889**	**592**

This total excludes centrally recorded overhead costs, such as utilities and IT support, which are not allocated to individual directorates or teams.

3. ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

				2005-06 Outturn					**2004-05 (restated)**
	Admin	Other Current	Current Grant	Gross Resource expenditure	A-in-A	Net Total Outturn	Net total Estimate	Net Total Outturn compared: with Estimate	Net total Outturn
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1									
Departmental Expenditure Limit									
Core Treasury	105,872	16,310	–	122,182	(12,018)	110,164	117,506	7,342	88,612
DMO	11,506	3,822	–	15,328	(5,308)	10,020	10,514	494	10,206
Parliament and Privy Council	–	–	3,095	3,095	–	3,095	3,095	–	1,589
Statistics Commission	–	–	1,342	1,342	–	1,342	1,350	8	1,595
Annually Managed Expenditure									
Investment in Bank of England	–	83,066	–	83,066	–	83,066	94,600	11,534	94,736
HMS Sussex	–	–	–	–	–	–	500	500	–
	117,378	**103,198**	**4,437**	**225,013**	**(17,326)**	**207,687**	**227,565**	**19,878**	**196,738**
Request for Resources 2									
Departmental Expenditure Limit									
UK coinage	–	32,631	–	32,631	(500)	32,131	33,400	1,269	30,855
Annually Managed Expenditure									
UK coinage	–	1,204	–	1,204	–	1,204	2,847	1,643	3,963
	–	**33,835**	**–**	**33,835**	**(500)**	**33,335**	**36,247**	**2,912**	**34,818**
Request for Resources 3									
Departmental Expenditure Limit									
OGC	**59,216**	**11,000**	**–**	**70,216**	**(15,009)**	**55,207**	**56,640**	**1,433**	**35,501**
Resource Outturn	**176,594**	**148,033**	**4,437**	**329,064**	**(32,835)**	**296,229**	**320,452**	**24,223**	**267,057**
Banking and gilts registration services (expenditure outside supply process (note 3.4))						10,415			15,200
Income payable to the Consolidated Fund (note 9.2)						(83,095)			(68,338)
Transfer of Function in respect of (note 2)	-					–			592
Net Operating Cost						**223,549**			**214,511**

Virement of £22k from Core Treasury (Other Current) to DMO (Other Current) and of £582k from Royal Mint (Administration) to Core Treasury (Administration) has been approved.

3.1 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 9.)

3.2 Explanation of variances between estimate and outturn

1. Request for Resources 1 (Core Treasury and DMO) was underspent by £19.9 million, or 9%. £11.5m of the underspend was on the cost of capital charge on the Bank of England. Most of the underspend on this item arises from the change in the rate at which the charge is calculated (see Management Commentary paragraph 35) and was anticipated at the time of the Spring Supplementary Estimate, but the Estimates process does not allow for overall resources to be reduced, so it was not possible to bring the Estimate more closely in line with forecasts.

2. £0.5m was provided in the Spring Supplementary Estimate for cost of capital charges on saleable artefacts recovered from the wreck of HMS Sussex (see note 28.1). The excavation of the wreck has been delayed by discussions with the Spanish government, so no artefacts have been recovered and no cost of capital charge arose.

3. £7.4m of the underspend arose on core Treasury administration and programme costs. The estimate included £2m of provision for restructuring costs on corporate services, but due to some slippage and some savings from redeployment of staff, actual costs were £0.2m. £0.7m had been allocated to the set up costs of a shared services project, but the procurement was cancelled when it became clear that the business case was not strong enough. A further £3m arose because forecasts included contingent costs which did not materialise, or otherwise proved overcautious.

4. Request for Resources 2 (UK coinage) was underspent by £2.9m, or 8%. £1.6m of this relates to the cost of capital charge on the Treasury's investment in the Royal Mint. As with the cost of capital charge on the investment in the Bank of England, the rate applicable for this charge has been reduced in 2005-06, so the underspend was anticipated, but the Estimates process did not allow for any further reduction in the Estimate. The cost of coinage was underspent by £1.3m, or 4%.

5. Request for Resources 3 (OGC) outturn was £55.2m or 2.5% under the Estimate amount of £56.6m. The underspend is attributable to programme activities. £0.7m relates to management of the residual estate, where the timing of property disposals is often difficult to predict, and £0.5m less than expected expenditure on the Efficiency Challenge Fund.

6. Detailed explanations of the variances are given in the Management Commentary.

3.3 Key to Requests for Resources

Request for Resources 1: Raising the rate of sustainable growth and achieving rising prosperity and a better quality of life, with economic and employment opportunities for all.

Request for Resources 2: Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Request for Resources 3: Obtaining the best value for money for Government's commercial relationships on a sustainable basis.

3.4 Expenditure outside supply process

This relates to payments to Computershare Investor Services plc for management of the gilts register, which are funded from the National Loans Fund, and the costs the Bank incurs in managing the Exchange Equalisation Account, which are debited directly from the account.

4. RECONCILIATION OF OUTTURN TO NET OPERATING COSTS AND AGAINST ADMINISTRATION BUDGET

4.1 Reconciliation of net resource outturn to net operating cost

		2005-06			2004-05
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
		£000	£000	£000	£000
Net Resource Outturn	3	296,229	320,452	24,223	267,057
Prior Period Adjustments	2	–	–	–	592
Non-supply Income (CFERs)	9	(83,095)	(79,550)	3,545	(68,338)
Non-supply Expenditure	3 & 20	10,415	17,577	7,162	15,200
Net operating cost		**223,549**	**258,479**	**34,930**	**214,511**

4.2 Outturn against final Administration Budget

	2005-06		2004-05
	Budget	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	181,911	176,594	142,706
Income allowable against the Administration Budget	(20,771)	(21,331)	(11,569)
Net outturn against final Administration Budget	**161,140**	**155,263**	**131,137**

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

5. RECONCILIATION OF RESOURCES TO NET CASH REQUIREMENT

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000
Resource Outturn	3	**320,452**	**296,229**	**24,223**
Capital:				
Acquisition of fixed assets – resources	11 & 12	6,835	6,285	550
Non-operating costs A-in-A:				
Repayment of loan		(1,380)	(1,380)	–
Accrual adjustments				
Non-cash items	7	(107,854)	(89,003)	(18,851)
Changes in working capital other than cash		2,913	(7,905)	10,818
Changes in creditors falling due after more than one year	18	–	(3,041)	3,041
Use of provision	19	4,793	3,508	1,285
Adjustment to reflect underspend in cash		(913)	–	(913)
Consolidation adjustment		–	(89)	89
Net cash requirement		**224,846**	**204,604**	**20,242**

6. STAFF NUMBERS AND COSTS

6.1 Analysis of total costs over categories

	2005-06 Ministers	Special Advisors	Permanently employed staff	Others	Total	2004-05 (restated) Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,714	541	62,765	9,167	74,187	67,687
Social Security costs	176	63	5,470	375	6,084	5,817
Other pension costs	–	77	11,560	771	12,408	8,989
Total costs	**1,890**	**681**	**79,795**	**10,313**	**92,679**	**82,493**
Less recoveries (income) in respect of outward secondments	–	–	(3,258)	–	(3,258)	(2,794)
Total net costs	**1,890**	**681**	**76,537**	**10,313**	**89,421**	**79,699**
Of which: Core Treasury						
Total costs	1,890	681	56,417	3,366	62,354	59,529
Less recoveries (income) in respect of outward secondments	–	–	(2,761)	–	(2,761)	(2,653)
Total net costs	**1,890**	**681**	**53,656**	**3,366**	**59,593**	**56,876**

The costs of Special Advisors include the Council of Economic Advisors.

In addition to the above, £378k (2004-05: £631k) of staff costs have been charged to capital projects.

Recoveries of £3,258k (2004-05: £2,794k) are shown as income in the operating cost statement.

6.2 Pension schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HM Treasury is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £12,189k were payable to the PCSPS (2004-05: £8,758k) at one of four rates in the range 16.2 to 24.6% (2004-05: 12 to 18.5%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

From 2006-07, the salary bands will, be revised and the rates will be in a range between 17.15 and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £174k (2004-05: £54k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5% of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £11k (2004-05: £4k), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £14k (2004-05: £12k). Contributions prepaid at that date were nil.

6.3 Ill Health Retirement

Three persons (2004-05: two persons) retired early on ill-health grounds, the costs of these are funded by normal contributions to the PCSPS.

6.4 Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

			2005-06			2004-05 (restated)
			Number			Number
Objective	Ministers	Special Advisers	Officials	Others	Total	Total
1	0.9	1.3	294.3	10.8	307.3	296.4
2	0.5	0.7	161.5	1.0	163.7	181.6
3	0.2	0.3	66.4	0.7	67.6	77.7
4	0.5	0.7	148.2	0.1	149.5	107.1
5	0.5	0.8	178.4	1.3	181.0	171.7
6	1.9	2.8	624.2	49.2	678.1	644.7
7	0.4	0.6	127.8	14.0	142.8	137.9
8	0.1	0.2	36.7	0.0	37.0	23.1
9	–	–	0.0	0.0	0.0	–
Staff Engaged On Capital Projects	–	–	7.0	1.0	8.0	19.5
Total	**5.0**	**7.4**	**1,644.5**	**78.1**	**1,735.0**	**1,659.7**
Of which						
Core Treasury	**5.0**	**7.4**	**1,132.5**	**28.1**	**1,173.0**	**1,146.7**

The above table only includes Ministers that directly contribute to HMT's objectives.

6.5 Additional ministerial salaries borne by HM Treasury

In addition, the Treasury bears the ministerial salaries of the following:

Official title	**Name**	**2005-06 Salaries**	**2004-05 Salaries**
		£000	£000
Prime Minister	Tony Blair	120 – 125	120 – 125
Chief Whip (Commons)	Hilary Armstrong	70 – 75	70 – 75
Deputy Chief Whip (Commons)	Robert Ainsworth	35 – 40	35 – 40
Chief Whip (Lords)	Lord Grocott	120 – 125	115 – 120
Deputy Chief Whip (Lords)	Lord Davies of Oldham	100 – 105	95 – 100
Lords in waiting (6 posts)		600 – 605	510 – 515
Government and Assistant Government Whips (14 posts)		375 – 380	340 – 345

7. OTHER ADMINISTRATION COSTS

7.1 Summary

	2005-06 Core Treasury	2005-06 Group	2004-05 (restated) Core Treasury	2004-05 (restated) Group
	£000	£000	£000	£000
Other administration costs	48,376	88,773	45,678	80,016
Exceptional item – profit on sale	–	–	(8,175)	(8,168)
Exceptional item – building revaluation	(4,858)	(4,858)	(10,908)	(10,908)
Total	**43,518**	**83,915**	**26,595**	**60,940**

7.2 Detail

	2005-06 Core Treasury	2005-06 Group	2004-05 (restated) Core Treasury	2004-05 (restated) Group
Staff-related costs, including training and travel	5,734	8,808	5,434	8,556
Accommodation costs:				
Interest element of on-balance sheet PFI contract (note 25.2)	11,015	11,015	10,745	10,745
Service element of on-balance sheet PFI contract	3,992	3,992	3,860	3,860
Indexation of liability on PFI contract	4,745	4,745	3,810	3,810
Other accommodation costs	3,868	12,191	3,504	11,562
Office services	7,735	11,885	8,645	12,130
Consultancy and legal costs	9,515	29,268	7,314	21,649
Recharge for services	(40)	–	–	–
Other	–	541	–	1,992
Non cash items				
Depreciation and similar charges:				
Depreciation and amortisation of fixed assets	2,347	5,752	2,231	4,591
(Gain) on disposal of 100 PS	–	–	(8,175)	(8,168)
Loss/(gain) on disposal of other fixed assets	532	520	(39)	(47)
Loss/(gain) on revaluation of 1HGR building	(4,858)	(4,858)	(10,908)	(10,908)
Loss/(gain) on revaluation of other fixed assets	603	1,083	206	326
Auditor's remuneration	72	134	70	131
Recharge for services	–	–	(75)	–
Cost of capital	(2,599)	(2,296)	(2,334)	(2,017)
Provisions:				
Provided in year	766	904	2,178	2,517
Release of surplus provision	(8)	(8)	–	–
Unwinding of discount on provision	28	105	69	151
Increase in provision due to change in discount rate	34	97	–	–
Other	37	37	60	60
Total	**43,518**	**83,915**	**26,595**	**60,940**
Other administration costs include:				
Hire of plant and machinery	92	193	84	169
Other operating leases	–	4,763	–	4,918
Research and development expenditure	39	107	153	319

No payments were made to the auditors in respect of non-audit services.

7.3 Reconciliation of non cash transactions appearing in Statement of Parliamentary Supply and Consolidated Cash Flow Statement

	2005-06		2004-05 (restated)	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Other administration costs – non cash items (as above)	(3,046)	1,470	(12,906)	(9,553)
Other non-cash amounts charged to operating expenditure (note 8)	85,443	87,533	99,147	98,303
Total non-cash transactions (note 5)	**82,397**	**89,003**	**86,241**	**88,750**
Non-supply costs	10,415	10,415	15,200	15,200
Total non-cash transactions (note 22.1)	**92,812**	**99,418**	**101,441**	**103,950**

8. NET PROGRAMME COSTS

	2005-06		2004-05 (restated)	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Request for Resources 1				
Current grants	4,437	4,437	3,188	3,188
Cost of capital (non cash)	83,982	83,982	95,689	95,689
Gain on revaluation of investments (non cash)	–	–	(506)	(506)
Other current expenditure	15,137	18,959	8,909	10,186
Provisions: Provided in year (non cash)	257	257	–	–
	103,813	**107,635**	**107,280**	**108,557**
Request for Resources 2				
Cost of capital (non cash)	1,204	1,204	3,963	3,963
Other current expenditure	32,631	32,631	31,084	31,084
	33,835	**33,835**	**35,047**	**35,047**
Non-supply – Banking and gilts registration services (note 3.4)	**10,415**	**10,415**	**15,200**	**15,200**
Request for Resources 3				
Whitehall Systems running costs	–	–	–	1,908
Whitehall Systems depreciation (non cash)	–	–	–	643
Efficiency Challenge Fund Expenditure	–	8,388	–	750
Cost of capital (non cash)	–	1,537	–	1,594
Transfer from leasehold property provision (non cash)	–	(1,227)	–	(3,760)
Transfer to specific dilapidations & legal provision (non cash)	–	664	–	–
Transfer to early retirement provision (non cash)	–	195	–	–
Unwinding of discount on provisions (non cash)	–	270	–	678
Increase in provision due to change in discount rate (non cash)	–	651	–	–
Other current expenditure	–	522	–	608
	–	**11,000**	**–**	**2,421**
Sub total programme costs	**148,063**	**162,885**	**157,527**	**161,225**
Less programme income				
Request for Resources 1 – HM Treasury (note 9)	(84,902)	(88,362)	(62,069)	(62,920)
Request for Resources 2 – UK Coinage (note 9)	(908)	(908)	(704)	(704)
Request for Resources 3 – OGC (note 9)	–	(2,017)	–	(6,224)
	(85,810)	**(91,287)**	**(62,773)**	**(69,848)**
Net Programme Costs	**62,253**	**71,598**	**94,754**	**91,377**

9. INCOME AND APPROPRIATIONS IN AID

Operating income analysed by activities:

	2005-06			2004-05 (restated)
	Appropriated in Aid	Payable to Consolidated Fund	Income included in OCS	Income included in OCS
	£000	£000	£000	£000
Administration income				
Core Treasury	5,362	–	5,362	4,404
DMO	2,350	1,986	4,336	3,334
OGC	13,619	1,326	14,945	12,561
	21,331	**3,312**	**24,643**	**20,299**
Programme income				
Request for Resources 1				
Pool Re insurance premiums (note 9.1)	129	29,263	29,392	17,504
Troika insurance premiums	–	–	–	153
Bank of England dividend	–	47,032	47,032	37,867
Other current programme income	6,527	1,200	7,727	5,544
Other dividends and interest	–	751	751	1,001
DMO	2,958	502	3,460	851
	9,614	**78,748**	**88,362**	**62,920**
Request for Resources 2				
Sale of coinage scrap metal	500	408	908	704
	500	**408**	**908**	**704**
Request for Resources 3				
Management and disposal of vacant property	–	–	–	2,872
Whitehall Systems	–	–	–	1,972
Residual Estate	184	186	370	–
Other income	1,206	441	1,647	1,380
	1,390	**627**	**2,017**	**6,224**
Department total operating income	**32,835**	**83,095**	**115,930**	**90,147**

9.1 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.

9. INCOME AND APPROPRIATIONS IN AID *(continued)*

9.2 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 2005-06		Outturn 2005-06	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A-in-A	–	–	4,534	*6,467*
Other operating income and receipts not classified as A-in-A	79,550	*70,000*	78,561	*68,459*
Sub total	79,550	*70,000*	83,095	*74,926*
Non-operating income and receipts – excess A-in-A	–	–	1,011	*1,011*
Other non-operating income and receipts not classified as A-in-A	13,000	*13,000*	13,000	*13,000*
Other amounts collectable on behalf of the Consolidated Fund	1,341	*1,341*	–	–
Total income payable to the Consolidated Fund	**93,891**	***84,341***	**97,106**	***88,937***

9.3 Non-operating income – Excess A-in-A

	2005-06	**2004-05**
	£000	£000
OGC		
Repayments of loan principal	999	–
Proceeds on disposal of fixed assets	12	620
Group Total	**1,011**	**620**

9.4 Non-operating income not classified as A-in-A

	Income	***Receipts***
	£000	*£000*
OGC		
Disposal of surplus freehold property	**13,000**	***13,000***

OGC received the proceeds of the disposal of surplus freehold property in Stanmore, Middlesex, which is not regarded as income for OGC and therefore surrendered to the Consolidated Fund.

10. ANALYSIS OF NET OPERATING COST BY SPENDING BODY

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

	2005-06 Estimate	2005-06 Outturn	2004-05 (restated) Outturn
	£000	£000	£000
Spending Body			
Core Treasury	186,880	158,326	170,028
Office of Government Commerce	56,640	53,254	31,093
DMO	10,514	7,532	10,206
Parliamentary Bodies	3,095	3,095	1,589
Statistics Commission	1,350	1,342	1,595
Net Operating Cost	**258,479**	**223,549**	**214,511**

11. TANGIBLE FIXED ASSETS

11.1 Tangible fixed assets

	Land & Buildings	Leasehold Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation								
At 1 April 2005	101,790	811	784	1,186	9,439	1,646	1,689	117,345
Transfers	–	–	–	–	1,689	–	(1,689)	–
Additions	1,657	–	224	557	1,926	–	–	4,364
Disposal	–	–	(40)	–	(1,904)	–	–	(1,944)
Revaluation – reserve movement	1,385	80	46	13	–	–	–	1,524
Gain/(Loss) on revaluation charged to OCS	3,420	–	1	1	(834)	3	–	2,591
At 31 March 2006	**108,252**	**891**	**1,015**	**1,757**	**10,316**	**1,649**	**–**	**123,880**
Accumulated depreciation								
At 1 April 2005	1,916	302	172	243	6,710	–	–	9,343
Charge in year	2,655	81	98	207	1,212	–	–	4,253
Released on disposal	–	–	(40)	–	(1,416)	–	–	(1,456)
Revaluation – reserve movement	359	–	12	3	–	–	–	374
(Gain)/Loss on revaluation charged to OCS	(1,438)	40	2	–	(244)	–	–	(1,640)
At 31 March 2006	**3,492**	**423**	**244**	**453**	**6,262**	**–**	**–**	**10,874**
Net book value 1 April 2005	99,874	509	612	943	2,729	1,646	1,689	108,002
Net book value 31 March 2006	**104,760**	**468**	**771**	**1,304**	**4,054**	**1,649**	**–**	**113,006**

The net book value of tangible fixed assets comprises:

	Core Treasury	OGC	DMO	Group
	£000	£000	£000	£000
1 April 2005	98,005	9,295	702	108,002
31 March 2006	101,231	11,038	737	113,006

11.2 Land and buildings

11.2.1 Horse Guards Road

1 Horse Guards Road is financed via a PFI contract. It was valued on the basis of existing use, as at 31 March 2006 by the Valuation Office Agency at a value of £95.87m (2004-05: £92.45m), of which £71.90m (2004-05: £69.34m) was considered attributable to the building and £23.97m (2004-05: £23.11m) to the land. The land and building will be professionally re-valued at five yearly intervals (with interim desk top valuations) and the building is being depreciated over its estimated useful economic life (currently assessed as 50 years).

11.2.2 Thistle Street

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. For 2005-06 the property has been revalued using the indices contained in PES (2006) 02 Updated Forecast Indices for Assets.

12. INTANGIBLE FIXED ASSETS – Software Licences

	2005-06
	£000
Cost/valuation	
At 1 April 2005	7,393
Additions	1,921
Disposals	(232)
Loss on revaluation charged to OCS	(757)
At 31 March 2006	**8,325**
Accumulated depreciation	
At 1 April 2005	4,233
Charge in year	1,499
Disposals	(188)
Gain on revaluation charged to OCS	(301)
At 31 March 2006	**5,243**
Net book value 1 April 2005	3,160
Net book value 31 March 2006	3,082

The net book value of intangible fixed assets comprises:

	Core Treasury	OGC	DMO	Group
	£000	£000	£000	£000
1 April 2005	714	1,588	858	3,160
31 March 2006	548	1,673	861	3,082

13. INVESTMENTS

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

	At 1 April 2005 (restated)	Additions	Disposals	Loan Repayments	Revaluation-Reserve movement	At 31 March 2006
	£000	£000	£000	£000	£000	£000
Core Treasury						
Bank of England	1,631,000	–	–	–	101,000	1,732,000
Royal Mint	5,500	–	–	–	–	5,500
Partnerships UK Shares	4,638	–	–	–	293	4,931
Partnerships UK Loan Stock	15,594	–	–	–	–	15,594
Sub Total	1,656,732	–	–	–	101,293	1,758,025
Others						
OGCbuying.solutions PDC	350	–	–	–	–	350
OGCbuying.solutions Loan	8,274	–	–	(2,379)	–	5,895
Sub Total	8,624	–	–	(2,379)	–	6,245
Group total	**1,665,356**	**–**	**–**	**(2,379)**	**101,293**	**1,764,270**

The value at which the Treasury's shareholding in PUK is stated in the consolidated balance sheet at 31 March 2006 is based on a draft set of accounts and as a result understated by £44k.The value of this investment based on PUK's final audited accounts would be £4,975k.

13.1 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. The Bank's two core purposes are to ensure monetary and financial stability. 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 equal to 50% of the Bank's net profit for its previous financial year, or such other sum as the Treasury and the Bank may agree. A dividend of £47,032k (2004-05: £37,867k) is payable. The associated cost of capital is £83,066k (2004-05: £94,736k).

As stated in note 1.7 the Bank now prepares its accounts under IFRS. As a consequence, the value of this investment as at 1 March 2005 increased from £1,597,867k to £1,631,000k as disclosed in note 33e in the Bank of England Report and Accounts. As a result of this change in accounting policy prior year comparatives have been restated. Extracts from the accounts of the Banking Department of the Bank of England for the year ended 28 February 2006 are shown in the table below; for further information, refer to the full Bank of England Report and Accounts, which can be viewed on the following website: www.bankofengland.co.uk.

13.1 Bank of England *(continued)*

Extracts from the Banking Department's accounts
For the year ended 28 February

	2006	2005 (restated)
	£ million	£ million
Extracts from the profit and loss account		
Profit after provision and before tax	99	106
Corporation tax	(19)	(37)
Profit for the year attributable to shareholder	80	69
Tax relief on payment to HM Treasury	14	11
Profit after tax	94	80
Payment to HM Treasury (see note 9)	(47)	(38)
Profit retained for the year	**47**	**42**
Extracts from the balance sheet		
Assets		
Loans and advances to banks, the money market and customers	14,554	12,904
Financial assets at fair value through profit and loss	5,663	–
Debt securities	–	8,248
Available for sale securities	3,705	–
Other assets	831	1,117
Total assets	**24,753**	**22,269**
Liabilities		
Deposits by central banks, other banks and building societies	14,588	12,160
Debt securities in issue	–	5,914
Financial liabilities at fair value through profit and loss	6,512	–
Other liabilities	1,921	2,804
Total liabilities	**23,021**	**20,878**
Total equity attributable to shareholder	**1,732**	**1,391**

The value at which the Treasury's investment in the Bank of England is stated in the consolidated balance sheet at 31 March 2005 reflects the above figure of £1,391m, as at 28 February 2005, plus £240m in respect of further IFRS revaluations i.e. the total value of £1,631m.

In addition, the Issue Department of the Bank of England manages the issue of bank notes. Notes in circulation at 28 February 2006 totalled £36.92 billion (2005: £35.42 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 2006 were £36.92 billion (2005: £35.42 billion), which included the Ways and Means Advance to the National Loans Fund of £13.37 billion (2005: £13.37 billion) and financial instruments issued by other banks.

The amount payable to HM Treasury (to the National Loans Fund) by the Issue Department for the year ended 28 February 2006 was £1.698 billion (2004-05: £1.618 billion). This 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.

13.2 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 Financial Reporting Manual, HM Treasury's investment is shown at its historical cost. No dividend is payable for 2005-06 (2004-05: nil). The associated cost of capital is £1,204k (2004-05: £4,644k).

13.2 Royal Mint *(continued)*

Extracts from the Royal Mint's draft accounts
(subject to final audit clearance)

For the year ended 31 March	**2006**	**2005**
	£000	**£000**
Extracts from the profit and loss account		
Turnover	114,552	99,613
Operating profit/(loss)	(288)	(1,957)
Net interest payable	(1,312)	(1,288)
Profit/(loss) for the year	**(1,600)**	**(3,245)**
Extracts from the balance sheet		
Fixed assets	38,648	39,921
Current assets	67,156	62,579
Liabilities due within one year	(45,917)	(42,936)
Liabilities due after more than one year	(9,947)	(11,215)
Net assets and shareholders funds	**49,940**	**48,349**

For further information, refer to the full Royal Mint Report and Accounts, which can be viewed on the following website: www.royalmint.com.

13.3 Partnerships UK

Partnerships UK plc (PUK) was established on 1 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 2006, the equity interest has been revalued to the net asset value per share of £1.11 compared to the value of £1.04 per share at 31 March 2005. No dividend was declared on the shares in 2005-06 (2004-05: nil). The associated cost of capital is £167k (2004-05: £150k).

The Treasury's holding of PUK Loan Stock is shown at nominal value. Interest at 4.8% (net), £749k (2004-05: £749k) is receivable on the loan stock. The associated cost of capital is £749k (2004-05: £749k).

Extracts from PUK's accounts

For the year ended 31 March	**2006**	**2005**
	£000	**£000**
Extracts from the profit and loss account		
Turnover: group and share of joint ventures	17,452	16,492
Profit on ordinary activities before taxation	957	452
Tax on profit of ordinary activities	(199)	(232)
Profit/(loss) for the year	758	220
Extracts from the balance sheet		
Fixed assets	17,327	9,676
Current assets	32,408	46,583
Creditors falling due within one year	(2,913)	(10,384)
Creditors falling due after more than one year	(35,656)	(35,467)
Net assets and shareholders funds	**11,166**	**10,408**

13.4 OGC Buying Solutions

OGCbuying.solutions, originally known as The Buying Agency, was set up in 1991 as a Trading Fund under the Government Trading Fund Act 1973. It provides procurement services to other government bodies. OGC owns 100% of the issued Public Dividend Capital of OGCbuying.solutions. In accordance with the Financial Reporting Manual, OGC's investment is shown at its historical cost. A dividend of £1,621k is payable for the year ended 31 March 2006 (2005: £1,225k). The associated cost of capital is £1,621k (2004-05: £1,225k).

Extracts from the OGCbuying.solutions' accounts
For the year ended 31 March

	2006	2005
	£000	**£000**
Extracts from the profit and loss account		
Turnover	70,341	60,067
Operating surplus	4,131	1,350
Net interest receivable	(118)	297
Surplus for the year	**4,013**	**1,647**
Dividend to be surrendered to OGC	(1,130)	(1,225)
Retained surplus	**2,883**	**422**
Extracts from the balance sheet		
Fixed assets	11,733	12,535
Current assets	26,438	24,099
Liabilities due within one year	(11,841)	(10,840)
Liabilities due after more than one year	(4,716)	(7,377)
Net assets and shareholders funds	**21,614**	**18,417**

14. SURPLUS FREEHOLD PROPERTY

	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
At 1 April	–	13,000	–	4,496
Revaluation	–	–	–	8,504
Disposal	–	(13,000)	–	–
At 31 March	**–**	**–**	**–**	**13,000**

The portfolio comprises one long leasehold property at 31 March 2006. It is expected that costs will be incurred at disposal so it is recorded at zero value. Negotiations are progressing towards final disposal during 2006-07.

15. STOCKS

	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Coinage scrap metal (Non-cash)	**565**	**565**	**287**	**287**

16. DEBTORS

16.1 Debtors analysis by type

	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Amounts falling due within one year				
Other taxation and social security	1,784	2,650	1,527	2,011
Trade debtors	1,065	2,892	2,079	4,545
Deposits and advances	305	338	320	376
Other debtors	85	188	(2,938)	259
Prepayments and accrued income	49,959	53,527	39,775	43,923
Prefunding for premature retirements	28	59	33	106
Amounts due from the Consolidated Fund in respect of supply	–	–	3,709	3,709
	53,226	**59,654**	**44,505**	**54,929**
Amounts falling due after more than one year				
Other debtors	6,649	6,658	6,357	6,605
Prefunding for premature retirements	3	3	31	62
	6,652	**6,661**	**6,388**	**6,667**
Total	**59,878**	**66,315**	**50,893**	**61,596**

Included within debtors and stock is £57,067k (2004-05: £48,897k) that will be due to the Consolidated Fund once the debts are collected. The prepayments and accrued income line includes £47.03m (2004-05: £37.87m) in respect of Bank of England dividend due to HMT.

16.2 Intra Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000	£000	£000	£000
Balances with other central government bodies	6,305	9,960	3	31
Balances with local authorities	62	114	–	–
Balances with NHS Trusts	20	25	–	–
Balances with public corporations and trading funds	356	962	–	–
Sub total: intra government balances	**6,743**	**11,061**	**3**	**31**
Balances with bodies external to government	52,911	43,868	6,658	6,636
Total Debtors at 31 March	**59,654**	**54,929**	**6,661**	**6,667**

17. CASH AT BANK AND IN HAND

	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Balance at 1 April	20,504	28,802	11,851	18,216
Net change in cash balances – inflow/(outflow)	(16,783)	(21,745)	8,653	10,586
Balance at 31 March	**3,721**	**7,057**	**20,504**	**28,802**

The following balances were held at 31 March:

	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Office of HM Paymaster General	3,721	6,747	20,504	28,431
Bank of England	–	309	–	370
Cash in hand	–	1	–	1
Balance at 31 March	**3,721**	**7,057**	**20,504**	**28,802**

18. CREDITORS

18.1 Analysis by type

Amounts falling due within one year	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Other taxation and social security	2,167	3,220	1,883	2,730
PFI contract (note 25.2)	1,436	1,436	1,309	1,309
Trade creditors	6,318	6,975	2,273	2,488
Other creditors	1,148	1,194	1,154	1,233
Accruals and deferred income	12,784	19,951	9,762	16,844
Transfer to provision	–	436	–	–
Bond from sub-tenants	–	268	–	–
Amounts issued from the Consolidated Fund for Supply but not spent at year end	1,542	3,558	–	7,916
Consolidated Fund extra receipts received	129	3,499	21,247	24,595
Consolidated Fund extra receipts receivable	55,335	57,067	45,232	48,897
Total	**80,859**	**97,604**	**82,860**	**106,012**

The amount due for Consolidated Fund extra receipts receivable includes £6,649k in relation to amounts not expected to be received for more than one year.

Included in creditors is £1,309k (2004-05: nil) of capital expenditure accruals, which is not included in movement in creditors line in Note 22.1.

Amounts falling due after more than one year	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
PFI contract (note 25.2)	150,468	150,468	147,159	147,159
Bond from sub-tenants	–	–	–	268
Total	**150,468**	**150,468**	**147,159**	**147,427**

18.2 Intra Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000	£000	£000	£000
Balances with other central government bodies	71,355	87,608	–	–
Balances with local authorities	324	–	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	2,110	268	–	–
Sub total: intra government balances	**73,789**	**87,876**	**–**	**–**
Balances with bodies external to government	23,815	18,136	150,468	147,427
Total Creditors at 31 March	**97,604**	**106,012**	**150,468**	**147,427**

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Surplus leasehold property	Other	Early departure & pension commitments	Total
	£000	£000	£000	£000
Core Treasury				
Balance at 1 April 2005	**–**	**–**	**3,888**	**3,888**
Provision utilised in year	–	–	(1,788)	(1,788)
Transfer from/(to) operating cost statement	–	50	965	1,015
Unwinding of discount	–	–	28	28
Increase/(decrease) in provision due to change in discount rate	–	–	34	34
At 31 March 2006	**–**	**50**	**3,127**	**3,177**
Others				
Balance at 1 April 2005	**9,013**	**386**	**2,824**	**12,223**
Provision utilised in year	(898)	–	(822)	(1,720)
Transfer from creditors	(436)	–	–	(436)
Transfer from operating cost statement	(1,227)	664	333	(230)
Unwinding of discount	270	–	77	347
Increase in provision due to change in discount rate	651	–	63	714
At 31 March 2006	**7,373**	**1,050**	**2,475**	**10,898**
Group				
At 1 April 2005	**9,013**	**386**	**6,712**	**16,111**
At 31 March 2006	**7,373**	**1,100**	**5,602**	**14,075**

Maturity analysis of provisions: amounts estimated to fall due

	Core Treasury	Group
	£000	£000
Within one year	1,463	3,752
Between one and two years	675	2,547
Between two and five years	781	4,708
After five years	258	3,068
	3,177	**14,075**

Surplus leasehold property

OGC has responsibility for the disposal of a number of surplus leasehold properties on behalf of central civil government. The surplus leasehold property provision ensures that the future liabilities are provided for. These liabilities are assessed on the basis of the net present value of the future outgoings associated with the lease, discounted at 2.2% (2004-05: 3.5%).

Other provisions

This includes specific dilapidations, legal costs and other provisions. 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. The provision includes amounts to cover expected legal and associated costs, including disputes over the disposal of vacant estate property.

Early departure & pension commitments

See statement of accounting policies – note 1.14.

20. GENERAL FUND

	2005-06		2004-05 (restated)	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
General Fund at 1 April	**1,249,399**	**1,254,102**	**1,255,436**	**1,252,661**
Prior Period Adjustment (note 2)	–	–	592	592
Adjusted opening balance	1,249,399	1,254,102	1,256,028	1,253,253
Net Parliamentary Funding				
Drawn down	155,455	203,955	143,728	186,488
Deemed	(3,709)	4,207	3,457	8,707
Year end adjustment				
Consolidated Fund creditor for cash unspent	(1,543)	(3,558)	–	(7,916)
Consolidated Fund debtor for cash not drawn	–	–	3,709	3,709
Net Transfer from Operating Activities				
Net operating cost for the year	(162,763)	(223,549)	(176,474)	(214,511)
Income not appropriated in aid payable to the Consolidated Fund	(78,654)	(83,095)	(60,361)	(68,338)
Non-operating income not classified as A in A	–	(14,011)	(24,118)	(24,738)
Non-cash charges				
Notional audit fee	72	134	70	131
Cost of capital	82,587	84,427	97,318	99,229
Bank of England services	10,415	10,415	15,200	15,200
Transfer from Revaluation Reserve (note 21)	(2)	10,753	1,104	2,888
Intra departmental consolidation adjustments	(6,917)	127	(10,262)	–
Balance at 31 March	**1,244,340**	**1,243,907**	**1,249,399**	**1,254,102**

21. REVALUATION RESERVE

	2005-06		2004-05 (restated)	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Balance at 1 April	**343,829**	**356,551**	**274,325**	**279,981**
Arising on revaluation during the year (net)				
Tangible assets and investments	101,293	102,363	70,608	70,946
Surplus property	–	–	–	8,505
Leasehold adjustment	–	80	–	7
Transfer from/(to) General Fund in respect of realised element of revaluation reserve				
Tangible assets and investments	2	2	(1,104)	(2,888)
Surplus freehold property	–	(10,755)	–	–
Balance at 31 March	**445,124**	**448,241**	**343,829**	**356,551**

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.

The closing balance on the Group revaluation reserve as at 31 March 2005 was £323,418k to which £33,133k has been added in respect of the change in valuation of the investment in the Bank of England (see note 1.7(ii)).

22. NOTES TO THE CASH FLOW STATEMENT

22.1 Reconciliation of operating cost to operating cash flows

	Note	2005-06 £000	2004-05 (restated) £000
Net operating cost	10	223,549	214,511
Transfer from the Cabinet Office in respect of GSRU	2	–	(592)
Adjust for non-cash transactions	7.3	(99,418)	(103,950)
Increase/(decrease) in Stock	15	278	(4)
Increase in Debtors	16	4,719	8,054
Less movements in debtors relating to items not passing through the OCS		3,709	19,929
Decrease/(Increase) in Creditors	18	8,408	(25,928)
Less movements in creditors relating to items not passing through the OCS		(15,145)	–
Consolidation adjustment		(89)	–
Indexation of PFI creditor		(4,745)	–
Use of provisions	19	3,508	11,683
Net cash outflow from operating activities		**124,774**	**123,703**

22.2 Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 £000
Tangible fixed assets additions	11	3,276	5,194
Intangible fixed assets additions	12	1,700	2,466
Proceeds of disposals of fixed assets	9.4	(12)	(36,283)
Investment additions		–	8,274
Proceeds of disposals of surplus freehold property	9.3	(13,000)	–
(Repayments) from other bodies	13	(2,379)	–
Net cash outflow/(inflow) from investing activities		**(10,415)**	**(20,349)**

The above figures are on a cash basis and have been adjusted for capital creditors of £1,088k for tangible fixed assets and £221k for intangible fixed assets (see note 22.3).

22.3 Analysis of capital expenditure and financial investment by Request for Resources

	Capital Expenditure £000	Loans etc £000	A-in-A £000	Net total £000
Request for Resources 1	2,580	–	–	2,580
Request for Resources 2	–	–	–	–
Request for Resources 3	3,705	–	(1,380)	2,325
Net movement in debtors/creditors	(1,309)	–	–	(1,309)
Total 2005-06	**4,976**	**–**	**(1,380)**	**3,596**
Total 2004-05	**7,660**	**8,274**	**(12,170)**	**3,764**

22.4 Analysis of financing

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply): current year	20	203,955	186,488
Capital element of payments in respect of on balance sheet PFI contracts	25.2	(1,309)	(1,183)
		202,646	**185,305**

22.5 Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2005-06 £000	2004-05 £000
Net cash requirement		(204,604)	(190,988)
From the Consolidated Fund (Supply) – current year	22.4	203,955	186,488
From the Consolidated Fund Supply – prior year	22.4	–	–
Amounts due to the Consolidated Fund received and not paid	18.1	3,499	24,595
Amounts due to the Consolidated Fund – received in a prior year and paid over		(24,595)	(9,509)
Increase/(decrease) in cash	**17**	**(21,745)**	**10,586**

23. NOTES TO THE CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES

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

	Programme grants and other current gross expenditure		Capital employed	
	2005-06	**2004-05 (restated)**	**2005-06**	**2004-05 (restated)**
	£000	£000	£000	£000
(1) Maintaining a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability;	96,044	102,870	885,404	834,148
(2) Increase the productivity of the economy and expand economic and employment opportunities for all;	77	135	(14,523)	(13,483)
(3) Promote efficient, stable and fair financial markets for their users and the economy;	45,840	47,424	882,635	828,230
(4) Promote a fair, efficient and integrated tax and benefit system with incentives to work, save and invest;	–	244	(3,021)	(2,804)
(5) Promote UK economic prospects by pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity, including especially protecting the very vulnerable;	4,143	1,510	(7,603)	(7,058)
(6) Improve the quality and cost effectiveness of public services;	12,308	3,299	9,952	22,045
(7) Achieve world-class standards of financial management in government;	–	–	(3,041)	(3,050)
(8) Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence based policies;	–	2	(2,165)	(2,010)
(9) Other resources required not falling under HM Treasury's eight main objectives.	4,473	5,741	(55,490)	(45,365)
Operating costs/net assets	**162,885**	**161,225**	**1,692,148**	**1,610,653**

The objectives have been revised – as a result prior year figures have been restated.

Programme grants and other gross expenditure

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 5); the cost of coinage (objective 1); non-Voted expenditure on Bank of England services (objectives 1 and 2); and spending by OGC (objective 6).

Capital employed

Where assets or liabilities relate to specific objectives they are attributed directly. For example, the £1.7 billion investment in the Bank of England and the £47.0m dividend receivable from the Bank are attributed to objectives 1 and 3, and the £20.5m investment in Partnerships UK is attributed to objective 6. The Department's administrative net liabilities are attributed to objectives in proportion to the expenditure on those objectives recorded on Consolidated Statement of Operating Costs by Departmental Aim and Objectives.

24. CAPITAL COMMITMENTS

		2005-06		2004-05
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Contracted capital commitments for which no provision has been made	1,608	1,863	419	2,545
Approved but not contracted capital commitments	200	1,420	–	1,319

25. COMMITMENTS UNDER LEASES

25.1 OPERATING LEASES

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

		2005-06		2004-05
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Land and buildings:				
Expiry within one year	–	–	–	–
Expiry after 1 year but not more than 5 years	–	962	–	962
Expiry thereafter	–	4,080	–	4,061
	–	**5,042**	**–**	**5,023**
Other:				
Expiry within one year	290	296	628	640
Expiry after 1 year but not more than 5 years	–	49	–	40
Expiry thereafter	–	–	–	–
	290	**345**	**628**	**680**

25.2 COMMITMENTS UNDER PFI CONTRACTS

1 Horse Guards Road

Under FRS 5 the asset is treated as an asset of HM Treasury and in accordance with Technical Note No1 (revised), entitled "How to account for PFI Transactions" as required by the FReM, the building is treated as an asset of HM Treasury (see Note 11.2.1).

The contract

In May 2000 HM Treasury entered into a 35 year PFI contract with Exchequer Partnership (EP) in respect of Core HM Treasury's building at 1 Horse Guards Road (1HGR). EP completed the refurbishment of 1HGR in July 2002.

The contract requires the building to be 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.

Unitary Payment

In exchange for the refurbishment and the ongoing provision of serviced office at 1 HGR, the Treasury is committed to pay EP an annual unitary payment during the 35 year term of the contract (subject to deductions for non-availability and under performance).

The actual costs incurred by the Treasury are wrapped up in an annual unitary payment to EP of £14.037m at 1999 prices, increased by RPI. The unitary payment made during 2005-06 totalled £16.314m, made up as follows:

	£000
Interest charges	11,015
Services	3,992
Charged to operating costs statement	15,007
Repayment of principal on creditor	1,309
Total unitary payment	**16,316**

Creditor

The refurbished 1 Horse Guards Road building was capitalised as an addition to tangible fixed assets in July 2002, at the cost of refurbishment incurred by EP of £141m. A creditor was recognised at fair value of £141m, which is being paid off over the period of the contract, on an annuity basis. The creditor as at 31 March 2006 is shown in Note 18.1.

Payments against the creditor comprise two elements, imputed finance lease charges and service charges.

	2005-06		2004-05	
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Finance lease obligations under on-balance sheet PFI contracts comprises:				
Rentals due within one year	12,599	12,599	12,286	12,286
Rentals due between two to five years	54,027	54,027	52,629	52,629
Rentals due thereafter	552,496	552,496	567,357	567,357
	619,122	619,122	632,272	632,272
Less interest element	(339,190)	(339,190)	(350,642)	(350,642)
Less uplift for inflation on future unitary payments	(128,028)	(128,028)	(133,162)	(133,162)
	151,904	**151,904**	**148,468**	**148,468**

25.2 COMMITMENTS UNDER PFI CONTRACTS *(continued)*

Charge to the Operating Cost Statement and future service charge commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on-balance sheet PFI transactions was £3,992k (2004-05: £3,863k).

At 31 March 2006 the Department was committed to pay service charges during the next year:

		2005-06		2004-05
	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000
Expiry within one year	–	–	–	–
Expiry within two to five years	–	–	–	–
Expiry within five to ten years	–	–	–	–
Expiry within ten to fifteen years	–	–	–	–
Expiry within fifteen to twenty years	–	–	–	–
Expiry within twenty to twenty five years	–	–	–	–
Expiry within twenty five to thirty years	–	–	–	–
Expiry within thirty to thirty five years	4,080	4,080	3,986	3,986
	4,080	**4,080**	**3,986**	**3,986**

26. OTHER FINANCIAL 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 2005-06 the Treasury purchased 1,414m coins, translating to charges for 1,736 million factored units at a cost of £13,909k.

Number of coins	Price per million coins (£)	Factored Units (millions)	Price per factor (£)	Commitment based on the purchase of 1,736m factored units (£000)
0 to 1,400,000,000	10,397	0 to 1,817	8,103	13,909
1,400,000,001 to 1,800,000,000	7,100	1,818 to 2,336	5,472	–
Over 1,800,000,000	6,087	Over 2,336	4,691	–

Excluding VAT

27. 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.

27. FINANCIAL INSTRUMENTS *(continued)*

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.

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 18.1 and 25.2, and certain provisions described in note 19. 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 2.2%. 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 13, long term debtors as set out in note 16 and cash at bank and in hand as set out in note 17. 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. Long term debtors are expected to be realised in 2 to 3 years. All material financial assets are denominated in sterling.

27. FINANCIAL INSTRUMENTS *(continued)*

Fair value of financial assets

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

	Carrying value 31 March 2006	Estimated fair value 31 March 2006
	£000	£000
Public Dividend Capital in Royal Mint (note 13)	5,500	49,940
Partnerships UK Loan Stock (note 13)	15,594	11,345 to 17,972
Public Dividend Capital in OGCbuying.solutions (note 13)	350	21,614

Public Dividend Capital in the Royal Mint and OGCbuying.solutions is carried at historical cost in accordance with the FReM. 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 4.75% to 7.25%. A yield of 4.75% implies a fair value of £17.972m, while a yield of 7.25% implies a fair value of £11.345m.

28. CONTINGENT ASSETS & LIABILITIES

28.1 Contingent assets & liabilities disclosed under FRS 12

	2006	**2005**
	£000	£000
Contingent assets		
A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of HMS Sussex, which sank in the Western Mediterranean in 1694 carrying gold and silver coins estimated to be valued at the time at £1 million. If confirmed as HMS Sussex the wreck and its contents are legally the property of Her Majesty's Government.	Not known	Not known

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 for further archaeological exploration of the wreck of HMS Sussex and recovery of artefacts etc. Under the agreement the net proceeds of the sale of coins and other marketable artefacts will be shared between the two parties. Insufficient certainty exists at present as to the presence or value of any potential recovery of artefacts to quantify the contingent asset.

28.1 Contingent assets & liabilities disclosed under FRS 12 (continued)

	2006	20005
	£000	£000
Contingent assets		
The Barlow Clowes group of companies collapsed in 1988, and the Treasury subsequently paid compensation to investors and initiated a process to recover as much as was reasonably possible from the Barlow Clowes group of companies and those associated with the collapse. The receivers and liquidators of the Barlow Clowes companies (the Officeholders) brought proceedings in the Isle of Man against the two Directors of the International Trust Corporation (IoM) Ltd (and the company itself). Judgement was given against the defendants on 11 February 2002 for the amounts (calculated in the High Court of Justice of the Isle of Man) of: £8,435,953.41 plus daily interest accruing from 24 July 2002 of £791.20 for Director A; and £9,924,275.68 plus daily interest accruing from 24 July 2002 of £926.96 for Director B.	Unquantifiable	Unquantifiable
Director A appealed this judgment and, after a succession of appeals, The Privy Council, on 10 October 2005, upheld the original judgment. The Officeholders are taking steps to enforce the judgement. Since there is no certainty of recovery nothing has been recognised in the financial statements. Recognising that full recovery may not be successful and that costs will arise it is not possible to quantify the value of the contingent asset.		
Contingent Liabilities		
Arrangements to provide reinsurance facilities for certain terrorist attacks against industrial and commercial property in Great Britain. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.	Unquantifiable	Unquantifiable
The Treasury have indemnified the liquidators and receivers (the Officeholders) of Barlow Clowes for any costs above the amounts recovered.	Unquantifiable	Unquantifiable
The Treasury is being sued for alleged failure to regulate the Lloyd's insurance market in proper accordance with EC law.	Unquantifiable	Unquantifiable
The Treasury have guaranteed the start-up costs incurred by the Financial Reporting Council in their preparation for new oversight of the actuarial profession (as recommended by the Morris Review in March 2005). This contingent guarantee will be called upon in the unlikely event that the Government policy in support of this project is abandoned and the FRC is unable to recoup its costs on a voluntarily-agreed basis from the relevant interested parties.	490	Nil

28.2 Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability

	2006	2005
	£000	£000
Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the IBRC passed to the Treasury. The Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity.	Unquantifiable	Unquantifiable
Treasury Minute of 24 March 2005: Bequest to the Nation: Harold William Frost Deceased	715	600
Indemnity on the bequest to the nation by Harold William Frost against further claims made against the Estate of Harold William Frost or against Mr Robin Brammall, in his capacity as Executor and Trustee of the Estate, including any costs and expenses, legal or otherwise, incurred in disputing such claims, limited to the value of the residue of the Estate.		

29. LOSSES AND SPECIAL PAYMENTS

The Group's administration costs include £73k arising from 16 claims waived or abandoned.

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 but those transactions are outside the scope of the resource accounts and are disclosed instead in the Consolidated Fund statements.

Core Treasury

Core Treasury has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, the Treasury Solicitors and the National Loans Fund.

Although the Bank of England (see Note 13.1) and Royal Mint (see Note 13.2) 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 and in the operating cost statement.

Nicholas Macpherson, Permanent Secretary of the Treasury is also a Non-Executive Member of HM Revenue & Customs Board.

James Sassoon was a Managing Director of core Treasury until 10 January 2006. The Treasury has a 44.56% shareholding in Partnerships UK plc, (see Note 13.3), a public private partnership with a majority private sector shareholding. James Sassoon was a Non Executive Director of Partnerships UK throughout the year, for which he received no remuneration whilst employed by the Treasury. PUK receives payment on a commercial basis for work done for the Treasury and other Government departments. It does not receive any grant in aid from HM Treasury.

John Kingman became a Managing Director of core Treasury in January 2006. Until that time he was a Director of the European Investment Bank, in which the Government has a shareholding, and an unpaid Non-Executive Director of Framestore CFC Ltd.

30. RELATED PARTY TRANSACTIONS *(continued)*

William Sargent became a Non-Executive Member of the Treasury Board on 1 June 2005. He is also Framestore CFC Ltd's Co-Chief Executive and the chairman of the Better Regulation Executive, which is part of the Cabinet Office and includes responsibility for The Administration Burdens Measurement Project.

Sir David Varney is a Non-Executive Member of the Treasury Board and is also the Chairman of HM Revenue & Customs (a key stakeholder of the Treasury).

OGC

The Office of Government Commerce (OGC) is an office of HM Treasury and sponsors OGCbuying.solutions (note 13.4), which is a trading fund. These bodies are regarded as related parties with which OGC has had various material transactions during the year.

In addition OGC has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, Department for Environment, Food & Rural Affairs, Department of Health, Department for Transport, Local Government & the Regions, Foreign & Commonwealth Office, Home Office, Ministry of Defence, and their agencies.

Neither the Chief Executive, Executive Directors nor any of the key managers or other related parties has undertaken any material transactions with OGC during the year.

DMO

The Debt Management Office (DMO) is an executive agency of HM Treasury. DMO has undertaken various transactions with 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.

31. THIRD PARTY ASSETS

All third party assets (along with the associated liability) are included in the balance sheet.

32. ENTITIES WITHIN THE DEPARTMENTAL BOUNDARY

The entities within the boundary during 2005-06 were as follows:
– the core department (Core Treasury)
– the Office of Government Commerce
– the Debt Management Office

33. POST BALANCE SHEET EVENTS

There are no reportable post balance sheet events.

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