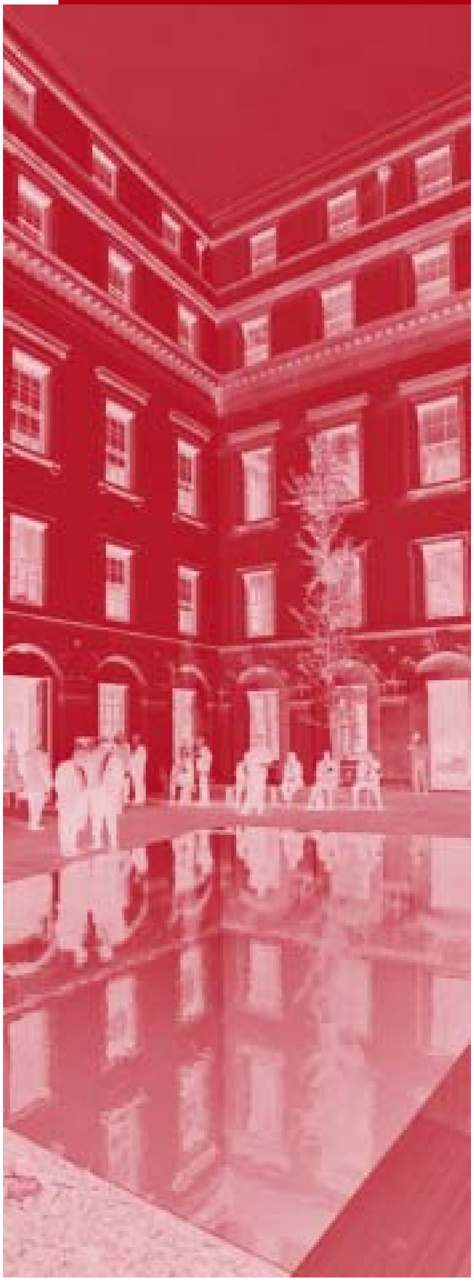
3 PERFORMANCE AGAINST OBJECTIVES



- Maintaining macroeconomic stability

  Maintaining a stable macroeconomic framework (Objective 1)

  Maintaining sound public finances (Objective 2)

  Promoting international financial stability (Objective 9)

- Meeting the productivity challenge

  Increasing the productivity of the economy (Objective 4)

  Fair and efficient financial services (Objective 8)

- Increasing employment opportunity for all

  Expanding economic and employment opportunities (Objective 5)

- Building a fairer society

  Fair and efficient tax and benefit system (Objective 6)

- Building high quality public services

  Quality and cost effectiveness of public services (Objective 3)

  High standards in public finance (Objective 7)

OBJECTIVE 1: TO MAINTAIN A STABLE MACROECONOMIC FRAMEWORK WITH LOW INFLATION

INTRODUCTION

3.1 The Macroeconomic Policy and International Finance Directorate of the Treasury, managed by Jon Cunliffe, takes lead responsibility for delivering Objective 1.

PERFORMANCE AGAINST TARGET

3.2 The specific target for this objective is Public Service Agreement (PSA) Target 2: 'RPIX (Retail Prices Index excluding mortgage interest payments) inflation to be kept at 2.5 per cent as specified in the Bank of England's remit.' Table 3.1 sets out performance against this PSA target in the past year.

DELIVERY

3.3 We will seek to deliver Objective 1 by:

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

3.4 Further information on the policy framework can be found in the Treasury book 'Reforming Britain's Economic and Financial Policy: towards greater economic stability" published by Palgrave (ISBN 0-333-96610-4).

TABLE 3.1:PERFORMANCE AGAINST TARGET

SR2000 PSA Target	Performance Indicator	Progress
2.RPIX inflation to be kept at 2.5 per cent as specified in the Bank of England's remit	RPIX	Met in 2002-2003,ongoing Over the year, the 12 month RPIX inflation rate has on average been just below target, ranging between 1.5 and 3.0 per cent.

ACHIEVEMENTS

3.5 Inflation has remained within one percentage point of the target since May 1997.Over the year, the 12 month RPIX inflation rate has on average been just below target,ranging between 1.5 and 3.0 per cent.Inflation is expected to remain close to target in future, with market expectations of inflation 10 years ahead remaining close to 2.5 per cent.

3.6 For the second year running the UK economy has continued to grow despite the impact of weak global demand and ongoing global uncertainty. UK Gross Domestic Product (GDP) growth in 2002 was 1.8 per cent,behind only the US and Canada in the G7, and significantly higher than growth in the other major European economies.

3.7 Further details on the performance of the macroeconomic framework are published in Budget 2003 on the Treasury web site at http://www.hm-treasury.gov.uk.

Performance against broad objective

3.8 In addition to maintaining inflation at 2.5 per cent,objective 1 also commits the Treasury to a macroeconomic framework that promotes stability. This has been achieved through transparent monetary and fiscal frameworks whose credibility is demonstrated by the fact that market expectations of inflation have remained around the inflation target since the introduction of these frameworks in 1997. Over the past year, employment has risen to record levels,while unemployment on both measures has remained close to its lowest levels for a generation, with claimant count unemployment below one million for the first time since 1975. The UK has now enjoyed 43 consecutive quarters of economic growth, its longest period of sustained growth since records began in 1955.

FUTURE PLANS

3.9 The Government has set out five economic tests which must be met before any decision to join the single currency can be made. The Government is committed to publishing a comprehensive and rigorous assessment of the five tests within two years of the start of this parliament. If a decision to recommend joining is taken by the Government, it will be put to a vote in Parliament and then to a referendum of the British people.

3.10 The Government will continue to monitor the macroeconomic framework and will ensure it reflects best practice including a specific review of different ways of measuring inflation.

OBJECTIVE 2: TO MAINTAIN SOUND PUBLIC FINANCES IN ACCORDANCE WITH THE CODE FOR FISCAL STABILITY

INTRODUCTION

3.11 The Budget and Public Finances directorate, managed by Sir Robert Culpin, takes lead responsibility for delivering Objective 2.

PERFORMANCE AGAINST TARGET

3.12 The specific target for this objective is PSA Target 3:'Over the economic cycle to maintain (a) public sector net debt below 40 per cent of GDP and (b) the current budget in balance or surplus'. Table 3.2 sets out performance against this PSA target in the past year.

DELIVERY

3.13 In addition to PSA Target 3, there are three Service Delivery Agreement (SDA) Targets, which help underpin delivery of objective 2. The three SDA targets for Objective 2 are:

- continuously monitoring the state of the public finances to ensure that risks to this target are identified as soon as they emerge;
- providing forecasts of revenues and spending based on the Treasury's view of the economic outlook, the NAO audited assumptions, and unbiased costings of the effects of Budget measures and other discretionary changes; and
- ensuring that these forecasts are fully consistent with the fiscal rules.

3.14 The fiscal rules, equivalent to PSA Target 3, are as follows:

- the golden rules: over the economic cycle, the government will borrow only to invest, and not to fund current spending – maintaining a current surplus; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held, over the economic cycle, at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

3.15 These rules are designed to ensure attainment of the Government's key objectives for fiscal policy:

- over the medium term, to ensure sound public finances, and that spending and taxation impact fairly both within and between generations; and
- over the short term, to support monetary policy.

3.16 Full details of the fiscal policy framework are enshrined in the Code for Fiscal Stability, approved by the House of Commons in December 1998. This is available at http://www.hm-treasury.gov.uk/Documents/UK_Economy/Fiscal_Policy/.

TABLE 3.2: PERFORMANCE AGAINST TARGET

SR2000 PSA Target	Performance Indicator	Progress
3. Over the economic cycle to maintain (a) public sector net debt below 40 per cent of GDP and (b) the current budget in balance or surplus.	(a) Public sector net debt and (b) surplus on the current budget.	On course. (a) The public sector net debt was 30.8 per cent of GDP at the end of 2002-2003, and its expected to remain below 34 per cent throughout the projection period, well within the 40 per cent target. (b) The average current surplus between the start of the cycle (1999-2000) and 2002-2003 is 1 per cent of GDP, and it is expected to stay in surplus over the economic cycle.

ACHIEVEMENTS

3.17 The average current balance between 1999-2000 and 2002-2003 remained strongly in surplus. This implies that so far over this economic cycle, public sector current receipts have been in excess of current spending,and the public sector has borrowed only to invest.

3.18 Chart 3.1 shows the outturns and projections for the average current surplus from the start of the cycle (1999-2000). Since the fiscal rules apply over the cycle, this is an appropriate measure of performance under the golden rule. As shown in the chart, the average current budget is comfortably positive throughout the forecast period.

3.19 Chart 3.2 shows public sector net debt, which forms the basis for the sustainable investment rule. Net debt is expected to stay low and stable, rising slightly from 31 per cent to stabilise just under 34 per cent of GDP over the forecast period, comfortably meeting the sustainable investment rule.

3.20 Further details of performance against the fiscal rules are published in Budget 2003, available on the Treasury web site at http://www.hm-treasury.gov.uk.

3.21 The Treasury has also made available:

- for the first time an End of Year Fiscal Report, which includes a comprehensive analysis of the public finances and policy in 2000-2001 and 2001-2002.
- a long-term fiscal Sustainability Report published alongside the 2002 Pre-Budget Report. Further details are available on the Treasury's website at http//:www.hm-treasury.gov.uk.

FUTURE PLANS

3.22 Budget 2003 reaffirmed the Government's commitment to ensuring sound and sustainable public finances over the medium term with fiscal policy supporting monetary policy. As Charts 3.1 and 3.2 show, the Budget 2003 projections remain fully consistent with the fiscal rules while meeting the Government's international and public spending commitment: the average current surplus is positive over this cycle, and net debt remains below 40% of GDP.

3.23 Consistent with meeting the rules,the Government set out its 2002 spending allocations in July 2002 in the '2002 Spending Review, New Public Spending Plans 2003-2006 and Budget 2003 has included measures such as:

- extension of the 100 per cent first year capital allowance for Information and Communication Technology investment (ICT);
- improvements to the research and development tax credit;
- the Child Trust Fund, providing every child born from September 2002 with an initial endowment of at least £250 at birth rising to £500 for children in the poorest families;
- an extra £100 for households with a pensioner aged 80 or over, in addition to the £200 winter fuel payment;
- further VAT anti-fraud measures.Changes in the tax regime to reduce avoidance of income, capital gains and corporation taxes and
- reforms to improve waste management and reduce emissions.

CHART 3.1: AVERAGE CURRENT SURPLUS SINCE 1999-2000

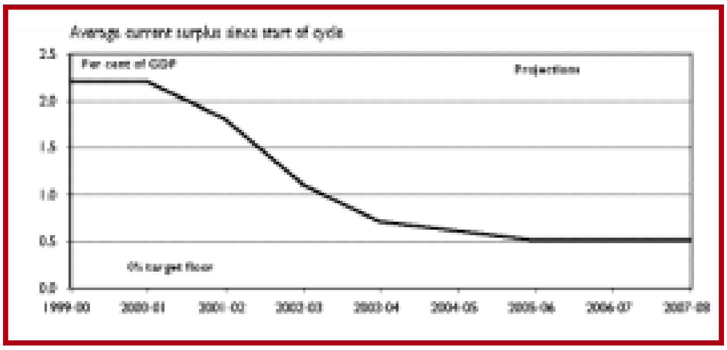
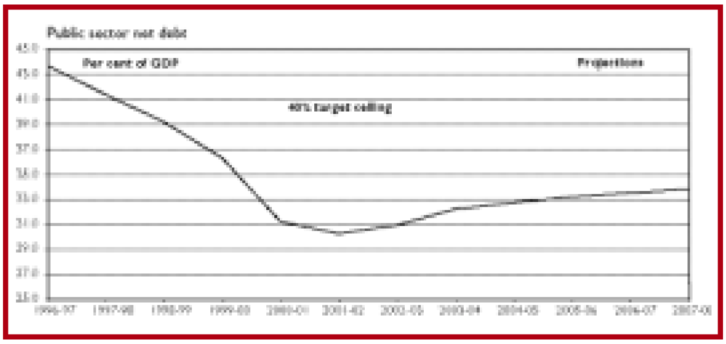


CHART 3.2: PUBLIC SECTOR NET DEBT



OBJECTIVE 9: TO PROMOTE UK ECONOMIC PROSPECTS BY PURSUING INCREASED PRODUCTIVITY AND EFFICIENCY IN THE EUROPEAN UNION, INTERNATIONAL FINANCIAL STABILITY AND INCREASED GLOBAL PROSPERITY, INCLUDING ESPECIALLY PROTECTING THE MOST VULNERABLE

INTRODUCTION

3.24 The Macroeconomic Policy and International Finance directorate, managed by Jon Cunliffe, takes lead responsibility for delivering Objective 9.

PERFORMANCE AGAINST TARGET

3.25 There are two PSA targets specifically related to Objective 9. PSA Target 8 is 'To increase the number of countries participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards'. PSA Target 9 reads 'relief of unsustainable debt by 2004 for all heavily-indebted poor-countries (HIPCs) committed to poverty reduction, building on the internationally agreed target that three quarters of eligible HIPCs reach Decision Point by the end of 2000.' This target is shared with the Department for International Development (DfID). Table 3.3 sets out performance against PSA Targets 8 and 9 over the past year.

DELIVERY

3.26 Delivery of Objective 9 is achieved primarily through establishing close and collaborative working relationships with the relevant institutions. In this case, the UK's active membership of the G7 plays a vital role in taking forward the Treasury's international agenda. Beyond this, the Chancellor's role as chair of the International Monetary and Financial Committee (IMFC) – the ministerial steering committee for the International Monetary Fund International Monetary Fund (IMF) – has allowed the UK to play a particularly influential role in shaping that institution's priorities and gaining widespread acceptance of the importance of codes and standards in the international financial system.

3.27 In addition to PSA Targets 8 and 9, the Treasury has Service Delivery Targets, which help underpin delivery of objective 9. They are:

- by measures to ensure, through the IMF and other relevant bodies, transparent surveillance of countries' adherence to internationally agreed codes and standards;
- by measures to promote open trade and capital flows;
- by tackling financial crime, corruption and regulatory abuses;
- by measures to implement reforms to the international financial architecture, to enhance global crisis prevention and resolution;
- by maintaining discipline and tackling fraud on the EU budget;
- by increasing momentum behind European economic reform;
- by securing faster, wider and deeper debt relief for the poorest countries, through the effective implementation of the HIPC initiative; and
- by working internationally to promote growth, development and poverty reduction in developing countries, in line with the International Development Targets.

TABLE 3.3: PERFORMANCE AGAINST TARGET

SR2000 PSA Targets	Performance Indicators	Progress
8.Increase the number of countries participating in the global economy on the basis of a system of internationally agreed and monitored codes and standards.	The IMF assesses member countries' compliance with internationally agreed codes and standards through the production of Reports on the Observance of Standards and Codes.	Ongoing Progress on these issues is described in the report 'Stability, growth and poverty Reduction: the UK and IMF 2002' published by the Treasury'.
9.Relief of unsustainable debt by 2004 for all heavily-indebted poor countries (HIPCs) committed to poverty reduction, building on the internationally agreed target that three quarters of eligible HIPCs reach decision point by the end of 2000.	Internationally agreed target of getting three quarters of eligible HIPCs to reach Decision Point by the end of 2000[1].	Met Target set in 2002 Spending Review of three quarters of eligible HIPCs to reach Completion Point by 2006.

1Decision Point and Completion Point are defined in:'Responding to the challenges of globalisation:The UK and IMF 2001, available at http://www.hm-treasury.gov.uk.

ACHIEVEMENTS

3.28 A full account of the UK's activities at the IMF is published in the report 'Stability, growth and poverty reduction: the UK and the IMF 2002' available on the Treasury website at http://www.hm-treasury.gov.uk/documents/international_issues/international_institutions/int_ii_ukimf.cfm.

3.29 Progress has been made on the development and adoption of collective action clauses in international sovereign bond contracts, to support the timely and orderly restructuring of unsustainable debt burdens. The IMF has delivered a proposal for a Sovereign Debt Restructuring Mechanism and will continue to work on the issues raised. A process is being initiated for the development of a Code of Good Conduct that will govern creditor, debtor, and official sector behaviour, before and during economic and financial crises.

3.30 In Europe, the Treasury continues to play a leading role in promoting economic reform. Recent global economic and political uncertainty, and the new challenges and opportunities of imminent EU enlargement, only underline the importance of structural reform to promote a more resilient, dynamic and job-creating Europe. The UK is fully committed to the ten year Lisbon agenda of economic reform agreed by EU leaders in March 2000. The Treasury's White Paper on European economic reform ('Realising Europe's potential', March 2002) and its subsequent progress report ('Meeting the challenge', spring 2003) have represented a strong contribution to the European reform debate, both in terms of evaluating progress and results, and identifying priorities for future action.

3.31 The Treasury has contributed to progress in World Trade Organisation negotiations for a new trade round. This has involved advancing UK trade objectives through using the finance ministry EU and G7 processes. The role of trade as one of the four planks of the Chancellor's global development compact points to its importance in poverty reduction and protecting the most vulnerable.

3.32 Working with other Member States, the Treasury continues to promote budgetary discipline in the EU budget and measures to tackle fraud and waste. In particular, the 2003 budget has been set and EU enlargement negotiations have been concluded with 10 candidate countries well within the expenditure limits agreed at the Berlin European Council in 1999. The new Financial Regulation entered into force on 1 January 2003. This introduces clearer audit and control systems and clarifies responsibilities for setting and implementing the budget, while respecting principles of sound financial management.

3.33 The Treasury continues to promote the case for additional resources for development and an International Finance Facility through all relevant national and international fora. The Facility would seek to provide an additional $50 billion per year in aid to 2015 to help meet the Millennium Development Goals. And on HIPC, the UK will use international meetings to continue to press for further reforms, including, for example, more flexible provision of topping up at completion point, with additional voluntary bilateral debt relief excluded from the calculation.

FUTURE PLANS

3.34 The Treasury will continue to use all available levers notably the formal and informal finance ministry networks to advance the UK's international financial interests and to deliver the objectives associated with the international system (B4.1). Over the next financial year this will mean preparing the ground for the UK's presidency of the G7 and the EU in 2005.

EU finances

3.35 Over the course of the remaining months until their full accession to the EU, the accession countries will be incorporated into the EU economic processes, ensuring their successful integration as EU Member States next year and their continued convergence with EU prosperity levels.

3.36 The Treasury will continue to work with other Member States to keep tight control of EU spending in each annual budget within the expenditure ceilings agreed at the Berlin European Council in 1999. It will continue to push for further effective measures to tackle fraud and waste in the budget, including through the Activity Based Budgeting arrangements introduced by the new Financial Regulation, from 1 January 2003.

3.37 In order to improve the effectiveness of EU development assistance, the Treasury, working with DfID and others, will push for the Commission to adopt clear and measurable outcome-based objectives for poverty reduction, for the share of EU official development assistance going to low-income countries to be increased in each annual EU budget, and for the Commission to continue to implement its current reform of the external actions budget and to introduce more far reaching reforms.

OBJECTIVE 4: TO INCREASE THE PRODUCTIVITY OF THE ECONOMY

INTRODUCTION

3.38 The Finance, Regulation and Industry directorate, managed by James Sassoon, takes lead responsibility for delivering Objective 4.

PERFORMANCE AGAINST TARGET

3.39 The specific target for this objective is PSA Target 5: 'to improve UK competitiveness by narrowing the productivity gap with US, France, Germany and Japan over the economic cycle'. This target is shared with the Department for Trade and Industry (DTI). Table 3.4 sets out performance against PSA Target 5 in the past year.

DELIVERY

3.40 In addition to PSA target 5, the Treasury has two SDA targets which help underpin delivery of objective 4:

- by maintaining macroeconomic stability through the new monetary, fiscal and public spending frameworks;
- by targeting the five key drivers of productivity performance: competition, enterprise and innovation, skills, investment and public sector productivity.

3.41 The Government's strategy for narrowing the productivity gap is set out in Budget 2003, available at http://www.hm-treasury.gov.uk/budget/bud_bud03/.

TABLE 3.4: PERFORMANCE AGAINST TARGET

SR2000 PSA Target	Performance Indicator	Progress
5.Improve UK competitiveness by narrowing the productivity gap with the US, France, Germany and Japan over the economic cycle.	Figures on output per worker published by HM Treasury (based on Office for National Statistics (ONS) and Organisation for Economic Cooperation and Development (OECD) statistics) and figures on output per hour worked published by the ONS (based on OECD statistics).	Outcomes mixed so far

3.42 The Government's strategy for closing the productivity gap rests on two important pillars:maintaining macroeconomic stability to help businesses, individuals and Government to plan effectively for the long term; and pursuing a comprehensive programme of microeconomic reform to remove the barriers that prevent markets from functioning efficiently.

3.43 The programme of microeconomic reform seeks to address historical weakness in five key drivers of productivity performance:

- enhancing competition to improve flexibility in product and capital markets,and promote greater business efficiency and consumer choice;
- promoting enterprise by removing the market barriers that deter entrepreneurship and prevent new firms from developing and growing;
- supporting science and innovation to harness the potential of new technologies and to promote more efficient ways of working;
- improving skills among young people and the adult workforce to generate a flexible and dynamic labour market;and
- encouraging investment and better investment decision-making through stronger local and national capital markets.

ACHIEVEMENTS

3.44 In 2002-2003 the Government achieved the following in support of the drivers of productivity:

- the Enterprise Act has received Royal Assent and will soon enter into force, giving full independence to the UK competition authorities;
- a new strategy to promote enterprise learning throughout the school and further education systems, in line with the recommendations of the Davies Review of enterprise in education;
- the creation of 2,000 Enterprise Areas in the most deprived parts of of the UK,to help businesses start up, develop and grow;

- exempting all commercial property transactions in deprived areas from stamp duty;
- extension of the 100 per cent first year capital allowance for Information and Communication Technology (ICT) investment;
- a new employer-led taskforce to support the expansion and improvement of the Modern Apprenticeships scheme and other work-based training programmes;
- extension of the Highly Skilled Migrant Programme, to provide a further source of skills for the UK economy;
- publication of the Sandler review of medium and long-term retail savings;and
- publication of the Higgs review of the role and effectiveness of non-executive directors.

FUTURE PLANS

3.45 To make further progress on closing the productivity gap with the UK's major competitors over the SR2002 period,there will be a continuing programme of microeconomic reform (including ensuring that new and previous reforms are successfully implemented and delivered) and working with departments to reform the public services to improve performance and productivity.

3.46 New measures set out in Budget 2003 include:

- new proposals to promote greater flexibility in the housing market,and to streamline and simplify the planning regime;
- proposals to improve access to finance for small businesses and deregulatory reforms to ease the regulatory burden;
- improvements to research and development (R&D) tax credits,consultation on the definition of R&D, and extension of 100 per cent capital allowances for small businesses investing in ICT;
- a review of how to improve business-university collaboration and a DTI review on how to improve the UK's comparative innovation performance;
- encouraging business, through local growth incentives and business planning zones;and
- further improvements to the UK migration system to make it a more effective source of highly skilled labour for the UK economy.

OBJECTIVE 8: TO SECURE AN INNOVATIVE, FAIR DEALING, COMPETITIVE AND EFFICIENT MARKET IN FINANCIAL SERVICES, WHILE STRIKING THE RIGHT BALANCE WITH REGULATION IN THE PUBLIC INTEREST AND EFFICIENT FINANCIAL SERVICES

INTRODUCTION

3.47 The Finance, Regulation and Industry directorate takes lead responsibility for delivering Objective 8.

PERFORMANCE AGAINST SDA TARGET

3.48 There is not a PSA target for Objective 8.The Treasury is assessed against SDA Target B3: 'measures of success include implementing the Financial Services and Markets Act in 2001'. Table 3.5 sets out performance against this target.

3.49 For further information on the Financial Services and Markets Act 2000 see http://www.hm treasury.gov.uk/Documents/Financial_Services/Regulating_Financial_Services/.

DELIVERY

3.50 To meet Objective 8 the Treasury has put in place policies aimed at:

- protecting the financial system from money laundering and the financing of terrorism;
- opening up financial markets and maintaining financial stability;
- encouraging competition in banking;
- making the retail savings market better meet the needs of consumers;
- enhancing consumer protection and streamlining regulation around mortgages and insurance, and
- increasing the efficiency of the allocation of capital, competition and choice in financial services in Europe, including through the Financial Services Action Plan.

ACHIEVEMENTS

3.51 Over the past year measures to protect the financial system from money laundering and counter the financing of terrorism have included:

- freezing the assets of terrorist individuals and organisations.
- consultation on UK implementation of the 2001 EU second Money Laundering Directive;
- guidance notes on the implementation by UK financial institutions of anti-money laundering and countering terrorist financing legislation;
- participating in the review by the Financial Action Task Force (FATF) of its Forty Recommendations to counter money laundering; and
- publishing a consultation document on options for increasing disclosure of the beneficial ownership of companies.

3.52 Progress on opening up financial markets and maintaining financial stability has included:

- working with the Financial Services Authority (FSA) and the Bank of England to maintain UK financial stability and enhance the operational resilience of the financial sector,
- successfully managing the transition back to market provision of terrorism insurance cover for airlines;and
- working with DTI and other regulators to strengthen the UK's auditing and financial reporting arrangements.

3.53 Progress on encouraging competition in banking has included:

- a Regulatory Reform Order introducing a number of deregulatory measures to enable credit unions to compete more effectively with other depositors;
- supporting and working with Gareth Thomas MP to secure successful passage of a Bill through Parliament, reforming the framework for industrial and provident societies.

3.54 Progress on reducing financial exclusion has included:

TABLE 3.5: PERFORMANCE AGAINST TARGET

SR2000 SDA Target	Progress
Measures of success include implementing the Financial Services and Marketing Act in 2001.	Met. Successfully completed the transfer of powers to the Financial Services Authority on 1st December 2001.

- on 1 April 2003, basic bank accounts became accessible at post offices for those new to banking and to using financial services.

3.55 Progress on enhancing consumer protection has included:

- consulting on proposals to implement regulation of general services, which will improve protection for the consumers of firms which sell insurance;
- finalising and publishing draft legislation to implement regulation of mortgages; and
- implementing the Fourth Motor Insurance Directive.

3.56 Progress on making the retail savings market better meet the needs of savers has included:

- Sandler Review of long term retail savings and investment. Its main recommendation was to introduce a suite of simple, lower risk investment products;
- Establishing cross-Whitehall committee to co-ordinate government provision of financial information and education.

3.57 In addition,the Treasury has pushed forward its agenda on financial services in Europe. This has included:

- working to secure political agreement on the Prospectus Directive;
- securing agreement to new structures for developing legislation in banking and insurance, and enhancing cooperation between national supervisors;
- agreement to the Pensions Directive, on terms that protect UK interests while making progress towards a more integrated EU market for occupational pensions;
- agreement to the Market Abuse Directive to provide controls on market abuse across the EU;
- adoption of the Conglomerates Directive, to assist the prudential supervision of financial conglomerates;
- increasing the attention given to the need for effective enforcement and implementation of EU legislation on financial services in Europe;and
- establishment of improved consultation arrangements with the UK financial sector on the development of EU legislation.

FUTURE PLANS

3.58 The Treasury will be working on the following issues in the year ahead:

- planning for the two year review of aspects of the Financial Services and Markets Act 2000;
- continuing, with the FSA and the Bank of England, and internationally, to monitor threats to UK financial stability, and to strengthen the UK's resilience;
- further modernising the UK's securities settlement legislation;
- introducing a suite of simple lower risk investment products;
- considering the taxation of pooled investment products;
- consulting on the regulation of investment trusts,in the light of recent problems with split capital trusts;
- working with the Department of Work and Pensions to improve the regulation of occupational pensions schemes;
- completing the FATF review of the Forty Recommendations;
- issuing new Money Laundering Regulations to implement the EU second Money Laundering Directive and the FATF Special Recommendation on Terrorist Financing; and
- publishing a UK Money Anti-Laundering Strategy.

3.59 In Europe, the Treasury will continue to advance the Chancellor's strategy including:

- negotiating the revised Investment Services Directive, aiming to reduce barriers to competition within the single market for investment firms and regulated exchanges;
- negotiating the Transparency Obligations Directive, to ensure that regular reporting requirements on businesses with securities traded on regulated markets are proportionate;
- developing proposals for greater integration of retail financial services markets in the EU, while recognising the different barriers that they face;
- working with the European Commission to ensure that commitments to better enforcement and implementation of EU legislation are delivered;
- ensuring that competition policy is considered as a policy tool to increase integration of financial services in Europe; and
- taking forward work on longer-term reforms to the systems of prudential supervision of credit institutions and insurance firms in Europe.

OBJECTIVE 5: TO EXPAND ECONOMIC AND EMPLOYMENT OPPORTUNITIES FOR ALL

INTRODUCTION

3.60 The Budget and Public Finances directorate, managed by Sir Robert Culpin,takes lead responsibility for delivering Objective 5.

PERFORMANCE AGAINST TARGET

3.61 The specific target for this objective is PSA target 6: 'To increase employment over the economic cycle.' This target contributes to the Welfare to Work PSA.

3.62 In addition to PSA Target 6,Objective 5 is also backed up by SDA target B1,'To achieve a continued reduction in the number of unemployed people over the age of 18 over the economic cycle. Table 3.6 sets out performance against PSA Target 6 and SDA Target B1 in the past year.

DELIVERY

3.63 In addition to PSA Target 6 and SDA Target B1,the Treasury has two further SDA targets,which explain,in broad terms,how we go about achieving Objective 5:

- by establishing appropriate incentives to work;
- by establishing a new Agency for people of working age, with stretching output,service delivery and value for money targets in summer 2001.

ACHIEVEMENTS

3.64 The achievements include:

- almost 415,000 long-term unemployed 18-24 year olds have found jobs through New Deal for young people. Over 135,000 older long-term unemployed participants have been helped into jobs through the New Deal for over 25s (ND25+); and the New Deal for the over 50s has helped over 93,000 participants into jobs since its introduction in 2000;
- Employment Zones:introduced in April 2000 and piloted in 15 areas in England, Scotland and Wales. They pilot an alternative to the ND25+, emphasising a work-first approach.Over 90,000 people have participated,with over 32,000 helped into work;
- Action Teams:based in 63 disadvantaged areas with a focus on tackling local barriers to employment. Over 63,000 people have been helped since their introduction;
- Jobcentre Plus: a work-first service for all working-age benefit recipients. By April 2003 more than 200 offices will have been opened. Quarterly performance tables are now being published on the Jobcentre Plus website;
- New Deal for lone parents: (NDLP) by December 2002 over 326,000 lone parents had participated in voluntary NDLP, and over 175,000 had found employment.

TABLE 3.6: PERFORMANCE AGAINST TARGET

SR2000 PSA Target and SDA Targets	Performance Indicator	Progress
PSA 6. Increase employment over the economic cycle.	Seasonally adjusted International Labour Organisation (ILO) employment levels in Great Britain.	Ongoing. Total employment in GB seasonally adjusted was 27.07 million in winter 2002. An increase of 270,000 since the spring 2001 baseline.
SDA B1. Achieve a continued reduction in the number of unemployed people over the age of 18 over the economic cycle.	Seasonally unadjusted ILO unemployment levels in Great Britain	Ongoing. The figure for the number of unemployed people over the age of 18 stood at 1,309,000 seasonally unadjusted in winter 2002. This represents an increase in unemployment amongst those aged 18 and over of 55,474 over the spring 2001 baseline, although the figure has fallen by 23,640 on the year since winter 2001. ILO unemployment remains below the level at the peak of the last economic cycle in 1990.

- New Deal for partners: a voluntary personal advisor service to dependent partners of claimants who have been on benefits for at least six months. Over 8500 have participated,with more than 1500 moving into jobs;

- New Deal for disabled people: since national introduction in 2001 around 9000 people have been helped into work through the programme;

- the autumn 2002 Green Paper[1] describes how the resources allocated in the 2002 spending review will be used to trial earlier and more intensive support for disabled people;and

- the Working Tax Credit (WTC) in April 2003, extends in-work support to workers aged 25 or over without children or disabilities, working 30 hours or more. The WTC helps tackle poor work incentives and persistent poverty among working people.

FUTURE PLANS

3.65 Future plans include:

- continuing to rollout Jobcentre Plus, and aiming to complete the nationwide roll out by 2006;

- from October 2003, the Employment Zone approach will be extended to people who would otherwise return to the New Deal for a second time in existing Employment Zone areas. From April 2004 multiple providers will be introduced in the five London Zones and the Birmingham, Liverpool and Glasgow Zones. And from April 2004, Employment Zones will replace the New Deal for lone parents in the five London Zones,and will replace the New Deal for lone parents returning for a second or subsequent work focused interview from October 2003;

- tackling the labour market position of older people: from October 2003, introducing a package of more intensive back-to-work help for people aged 50 and over. The Government is also looking at ways of making the New Deal more effective, and from April 2004 will be piloting,in six areas, the introduction of mandatory Intensive Activity Periods within the New Deal 25 Plus for clients aged 50 or over;

- in addition, in the 2002 Pre-Budget Report and Budget 2003, the Government announcing a further range of measures to build on the success of the Jobseeker's Allowance regime, improve work incentives and strengthen labour market flexibility. These additional reforms, to be introduced from April 2004 onwards, include a pilot programme of intensive support in areas with high concentrations of worklessness, further measures to support lone parents looking for work, and reforms to simplify and streamline the administration of Housing Benefit.

[1] Pathways to Work:helping people into employment

OBJECTIVE 6: TO PROMOTE A FAIR AND EFFICIENT TAX AND BENEFIT SYSTEM WITH INCENTIVES TO WORK, SAVE AND INVEST

INTRODUCTION

3.66 The Budget and Public Finances directorate, managed by Sir Robert Culpin, takes lead responsibility for delivering Objective 6.

PERFORMANCE AGAINST TARGET

3.67 The specific target for this objective is PSA Target 7: 'To make substantial progress towards eradicating child poverty by reducing the number of children in poverty by at least a quarter by 2004.' This target is shared with the Department for Work and Pensions (DWP). Table 3.7 sets out performance against PSA Target 7 in the past year.

DELIVERY

3.68 Reform of the welfare state, including the launch of the Child and Working Tax Credits and the Pension Credit, is at the heart of the Government's strategy for tackling child poverty, supporting families with children and providing security for all in old age. A modern and fair tax system, which encourages work and saving and ensures that everyone pays their fair share of tax, underpins this programme of reform.

3.69 The Government's strategy to tackle child poverty was set out in the document Tackling child poverty: giving every child the best possible start in life published alongside the 2001 Pre-Budget Report. This strategy is designed to:

- ensure decent family incomes, with work for those who can and support for those who cannot;
- support parents, so they in turn can provide better support for their children;
- deliver high quality public services in all neighbourhoods, with targeted interventions for those with additional needs; and
- harness the power and expertise of the voluntary and community sectors, promoting innovation and good practice.

3.70 The Child and Working Tax Credits, introduced in April 2003, are making a substantial contribution to meeting the Government's child poverty target. The Child Tax Credit provides a single, seamless system of income-related support for families with children. With the National Minimum Wage, Working Tax Credit ensures a guaranteed minimum level of income to tackle poverty and help make work pay.

3.71 Paid on top of Child Benefit, the Child Tax Credit provides:

- a family element of £545 a year, or £1,090 for families with one or more children under the age of one, for all families with incomes of less than £50,000, gradually withdrawn for those with incomes above this amount; and
- a child element of £1,445 a year for each child or young person in families with incomes of up to around £13,000 a year, gradually withdrawn for families with higher incomes. Families caring for disabled or severely disabled children will receive increased child elements to reflect their greater needs. From April 2004, the child element will be uprated at least in line with earnings for the rest of the Parliament.

3.72 As a result of the Government's personal tax and benefit reforms since 1997, including the changes to national insurance contributions (NICs) and the income tax personal allowance announced in Budget 2002, by April 2003:

- families with children will be, on average, £1,200 a year better off, while those in the poorest fifth of the population will be, on average, over £2,500 a year better off in real terms;
- a single-earner family on half average earnings of £14,300 with two young children will be £3,430 a year better off in real terms; and
- a single-earner family on average earnings of £28,600 and with two children will be about £275 a year better off in real terms.

TABLE 3.7 PERFORMANCE AGAINST TARGET

SR2000 PSA Target	Performance Indicator	Progress
7. Make substantial progress towards eradicating child poverty by reducing the number of children in poverty by at least a quarter by 2004.	Number of children in low-income households by 2004-05. Low income households are defined as households with income below 60% of median as reported in the annual Households Below Average Income (HBAI). HBAI statistics cover Great Britain. Progress will be reported against the 1998-99 baseline figures and methodology. The baseline is 4.2 million children in low income households after housing costs (AHC) and 3.1 million before housing costs (BHC).	Ongoing. Between 1998-99 and 2001-02 the numbers of children in low-income households fell by 400,000 after housing costs and 500,000 before housing costs. So we are around half the way towards reaching the target in half the time.

ACHIEVEMENTS

3.73 Data for 2001-02 show a fall of 400,000 children after housing costs (AHC),and of 500,000 before housing costs (BHC). So the Government is around half the way towards meeting its target in half the time (It is just over halfway on the BHC measure and just under halfway on the AHC measure).Progress on this and other indicators related to child poverty is set out in the Government's annual anti-poverty report, *Opportunity for All*[1].

3.74 This progress has been made during a period of high growth in income. In contrast, between 1979 and 1987 median income grew strongly and the proportion of children in relative low-income households almost doubled. Moreover, the data do not reflect the impact of recent policies,including the Child and Working Tax Credits, paid from April 2003.

3.75 The Government expects that in 2003-04,there will be 1.5 million fewer children living in relative low-income households than there would otherwise have been, had the Government done no more than index 1997 policies to prices.This comprises both the number of children living in households now lifted above the relative income level and the number of children who would otherwise have fallen into relative poverty, as median real income and earnings rise.

FUTURE PLANS

3.76 The Department for Work and Pensions (DWP) has recently consulted on a range of options for building on its existing poverty indicators with a measure of child poverty that reflects the complexity of the issues, makes sense to people who experience poverty, allows the public to hold the Government to account and leads to the most effective policy decisions. DWP will publish its initial conclusions shortly. Any change will not relate to the 2004-05 target.

3.77 In addition,as announced in the 2002 Pre-Budget Report, the Government will also publish a Green Paper on children at risk, examining how to make mainstream services more preventative and more responsive to the needs of children at risk of a range of adverse outcomes.

3.78 The Government will examine, for the 2004 Budget and the next Spending Review, both the welfare reform and public service changes needed to advance faster towards its goals. In pursuing these goals, the Government will continue to work closely with outside organisations.

3.79 In addition to future plans related to tackling child poverty, Budget 2003 announced a new Child Trust Fund providing every child born from September 2002 with an initial endowment at birth of £250, rising to £500 for children in the poorest families,a reform which is progressive and universal and will strengthen the saving habit of future generations;

3.80 The Pensions Green Paper set out a range of proposals to enable those of working age to plan more effectively for a secure retirement. The Government has also published proposals for radical simplification of the taxation of pensions. The proposals sweep away the complexity of the current system, replacing the existing eight different tax regimes for pensions with a single lifetime limit on the amount of pension saving that can benefit from tax relief by encouraging saving and promoting longer working. The Government has also established a new Pensions Commission to examine the regime for UK private pensions and long-term savings and to assess the effectiveness of the voluntarist approach. The Commission expects to publish its work programme shortly.

[1] Opportunity for All,Department for Work and Pensions,September 2002:www.dwp.gov.uk/publications/dwp/2002/oppal-fourth/index.htm

[2] Defined as having income below 60 per cent of the contemporary median

OBJECTIVE 3: TO IMPROVE THE QUALITY AND COST-EFFECTIVENESS OF PUBLIC SERVICES

INTRODUCTION

3.81 The Public Services Directorate, managed by Nick Macpherson, takes lead responsibility for delivering objective 3.

PERFORMANCE AGAINST TARGET

3.82 The specific target for objective 3 is PSA Target 4: 'To achieve an improvement in value for money in public services year by year.' Table 3.8 below summarises the Treasury's performance against PSA 4 in 2002-03.

DELIVERY

3.83 The Government's long-term goal is to deliver world-class public services through investment and reform to ensure that taxpayers receive value for money. We are delivering objective 3 by developing a framework for planning and controlling public spending, which:

- is underpinned by firm fiscal rules;
- provides a stable basis for departmental planning with budgeting over three years;
- allocates resources on the basis of firm and fixed plans;
- provides separate allocations for capital spending, to ensure sustained increases in investment;
- links budgets to challenging outcome-focused targets as part of departmental Public Service Agreements; and
- links investment to reform and delivery.

ACHIEVEMENTS

3.84 The 2002 Spending Review (SR2002) was delivered in July 2002 consistent with the remit set in Budget 2002, and included:

- a substantial reform package designed to improve public service performance and reduce inequalities;
- improvement of PSAs, with more emphasis on monitoring targets, and driving forward delivery;
- embedding of pay and workforce issues in the delivery agenda, so that pay supports delivery; and
- further integration of regional policy into the spending review process.

3.85 Budget 2002 set out spending plans for health from 2003-04 to 2007-08. Remaining spending plans for 2003-04 to 2005-06 were set in SR2002 in July 2002. The Review completed the transition to full resource budgeting. For the first time, departments' spending limits have been set on a full resource basis, and include the full economic costs of holding and using capital assets and of incurring longer-term liabilities.

3.86 These spending plans will deliver substantial additional investment in priority public services, consistent with the Government's fiscal rules. Current spending will rise in total by 3.1 per cent a year in real terms in 2004-05 and 3.8 per cent in 2005-06. Public sector net investment is projected to rise from its target of 1.8 per cent of GDP in 2003-04, to 2 per cent of GDP by 2005-06 and to 2.25 per cent by 2007-08.

TABLE 3.8: PERFORMANCE AGAINST TARGET

SR2000 PSA Target	Performance Indicator	Progress
4. Achieve an improvement in value for money in public services year by year.	Monitored centrally using a scorecard approach, based on departmental information.	On course. The 2000 Spending Review set value for money targets in every PSA. Departments continue to report good progress against these targets. Furthermore, from April 2003, the Treasury introduced regular web-based reporting against all the new 2002 Spending Review targets, including the value for money targets at http://www.hm-treasury.gov.uk/performance/

3.87 Planned UK spending on the NHS will increase by an average of 7.2 per cent a year in real terms over the five years to 2007-08. Total UK health spending is projected to rise from 7.8 per cent of GDP in 2002-03 to 9.4 per cent of GDP in 2007-08. Planned total spending on education in the UK is set to rise on average by 5.7 per cent a year after inflation between 2002-03 and 2005-06. Total spending on education in the UK is set to rise to 5.5 per cent of GDP by 2005-06. Planned spending on transport is set to grow by 8.3 per cent a year over the three years to 2005-2006. Provision of £3 billion in 2002-2003 has been set aside to cover the costs of the military conflict in Iraq, while continuing to meet the fiscal rules.

3.88 Over 75 per cent of additional spending in Departmental Expenditure Limits and locally financed expenditure will be allocated to the key priorities of health, education, personal social services, transport, housing and criminal justice.

3.89 The spending plans set in SR2002 were accompanied by extensive reforms to ensure that taxpayers receive value for money from their investment in the public services. These reforms are based on principles which aim to combine high national standards of public service provision across the country with the greatest possible devolution of freedom and flexibility to frontline service providers.

3.90 Examples of reforms include:

- setting up a new independent Commission for Healthcare Audit and Inspection to monitor performance and the use of resources in the health service, and

- local authorities which the Comprehensive Performance Assessment (CPA) shows to be performing well are to gain new freedoms.

3.91 Departmental Investment Strategies were published in December 2002.They describe departments' plans for investment for 2003-04 to 2005-06, and are helping to ensure that new investment and existing assets are used effectively. This is particularly important in the context of rapidly increasing public sector investment.

3.92 In July 2002 the Treasury published Public Service Agreements for 2003 to 2006 (Cm 5571) setting out around 130 key targets across government.Also set out was a commitment to delivery plans for all targets, with clear milestones and trajectories setting out how targets will be met.The Treasury has been working with the Prime Minister's Delivery Unit and delivery departments in recent months to make these commitments a reality.

3.93 Work has also continued in implementing the Government's strong commitment to accountability and transparency. From 2002,progress reports on PSA targets in spring departmental reports have been supplemented by updates in Autumn Performance Reports. The further, major, reform of regular web-based reporting of progress against all SR2002 PSA targets was introduced in April 2003 http://www.hm-treasury.gov.uk/performance/.

3.94 The Treasury continues to encourage innovation and partnership in public service provision through the Invest to Save Budget (ISB). The fifth ISB bidding round was completed this year and funding of £28 million was allocated across 48 innovative projects at local and national levels.We have continued to promote and disseminate the lessons learnt from ISB projects. Last year ISB conferences were held in London and Birmingham. On 22 May another conference will take place in London,where the ISB awards will be presented to celebrate leading ISB projects.

FUTURE PLANS

3.95 The Treasury will focus on delivery and value for money.The Treasury has a new PSA target under SR2002, shared with the Cabinet Office, to 'improve public services by working with departments to help them meet their PSA targets,consistently with the fiscal rules'.

3.96 The Treasury will work with the Prime Minister's Delivery Unit and others to assess progress on delivery and to help departments achieve their objectives through problem-solving support,capacity-building and sharing of best practice.

3.97 The reform themes from SR2002 will be developed and embedded.

3.98 To make the best of funding allocated in SR2002 and prepare the ground for the next Spending Review, the Government will investigate a number of key issues including:

- examining how public services and welfare reform can most effectively tackle child poverty, further integrate services for under 5s, and improve the prospects of work and opportunity for families,especially in deprived areas;

- examining how best to achieve decentralised delivery and responsive local and regional services in a way that is consistent with equity and efficiency, against a clear framework of national standards;

- engaging the voluntary and community sector, to assess progress made by departments in encouraging involvement and potential for going further; and

- delivering better childcare, building on the inter-departmental childcare review.

OBJECTIVE 7: TO ACHIEVE A HIGH STANDARD OF REGULARITY, PROPRIETY AND ACCOUNTABILITY IN PUBLIC FINANCE

INTRODUCTION

3.99 The Financial Management Reporting and Audit Directorate, headed by Sir Andrew Likierman, is responsible for delivering Objective 7.

PERFORMANCE AGAINST TARGET

3.100 Table 3.9 sets out performance against SDA target B2 in the past year.

DELIVERY

3.101 The Treasury is committed to SDA target B2 to "publish the first consolidated Central Government Accounts for 2003-04." We will deliver Objective 7 by:

- developing and maintaining an effective financial accounting and reporting framework for the UK central government sector, aligned as far as possible to UK Generally Accepted Accounting Practice (UK GAAP);
- developing and maintaining an effective framework for control of public finances, promoting high standards of regularity, propriety, value for money and accountability;
- improving information available for Government decision making by producing consolidated accounts for central government and in due course whole of government; and
- improving government's capability to handle risk and uncertainty through a comprehensive two-year programme of change to enable confident decision taking on risk and innovation.

TABLE 3.9: PERFORMANCE AGAINST TARGET

SR2000 PSA Target and SDA Targets	Performance Indicator	Progress
B2. Publish the first consolidated Central Government Accounts (CGA) for 2003-2004.	CGA Milestone 3: Completion of the first 'dry run' CGA for 2001-2002.	Met-ongoing. Accounts preparation in progress. Planned to be completed and reviewed by the National Audit Office by Summer 2003.

ACHIEVEMENTS

3.102 Over the past year the Government has made substantial progress towards meeting objective 7:

Accounting and reporting framework

- the number of resource accounts receiving a qualified audit opinion on 'true and fair' grounds, and the severity of the remaining qualifications, has continued to fall:

Audit opinion	1998-1999	1999-2000	2000-2001	2001-2002
Unqualified*	22	37	43	50
Qualified*:	30	12	9	6
- Scope limitation	18	9	7	6
- Adverse opinion	5	0	0	0
- Disclaimer	4	3	2	0
- 'Nil' opinion	3	0	0	0

on 'true and fair' grounds

- there has also been a significant improvement in the timeliness of the accounts:

Accounts signed after due date

1999-2000	2000-2001	2001-2002
37	26	3

- we have published a further 6 "Managing Resources" booklets (available at www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Audit_and_Accounting/pss_aud_index.cfm), designed to help departments and others derive the full benefits from resource based financial management. A major evaluation exercise has been completed which shows that the booklets have been well received, and have had a positive impact.

- in developing financial management systems that are recognised as world class,the Treasury has hosted a number of overseas delegations in 2002-2003;

- we have been active members of two International Federation of Accountants (IFAC) Public Sector Committee (PSC) Steering Committees and chaired an Organisation for Economic Cooperation and Development (OECD) public sector accruals symposium in February 2003;and

- the Treasury is taking forward the post-Enron agenda in reviewing the UK's regime for statutory audit and financial reporting through the Co-ordinating Group on Audit and Accountancy issues, as well as participating in the DTI review of regulation of the accountancy profession and the Financial Reporting Council group on developing Combined Code guidance for audit committees.

Whole of Government Accounts (WGA)

- the 1998 CSR PSA target xxiv is on course to be met,with the publication of statistically-based WGA for 2001-2002 planned for Autumn 2003;and

- the Government On-Line Database (GOLD) consolidation system has been rolled out to departments in preparation for the first 'dry-run' Central Government Accounts for 2001-2002, in order to ensure that PSA target B2 of publishing GAAP-based CGA for 2003-2004 is met.

Control of public finances

- we have taken steps to implement the undertakings in the Government's response to Lord Sharman's report on Audit and Accountability;

- we have published benchmarking information on internal audit services in government and good practice guides on Government Internal Audit Standards;

- we have promulgated a model NDPB Financial Memorandum to departments;

- we have led working groups on the audit of e-government and the role of internal audit in resource management; and

- we have conducted a survey of over 240 central government bodies on progress in developing risk management practices to underpin the Statements on Internal Control.

FUTURE PLANS

3.103 The Treasury objective of Achieving a high standard of regularity, propriety and accountability in public finance will continue for the SR2002 period. We expect to build further on achievements in these key areas against our SDA targets:

Accounting and reporting framework

- FMRA aims to help Parliament, departments and others derive maximum benefit from the move to resource based financial management;

- FMRA will help departments achieve further improvements in the quality and timeliness of their resource accounts;

- FMRA will maintain and update financial reporting and accounting guidance for central government;and

- FMRA will work with UK and international bodies to:

  a. assess any implications for the accounting sector arising from the post-Enron agenda; and

  b. maximise convergence in accounting standards across the public sector.

Control of public finances

- FMRA will aim to maximise the impact of the risk management and corporate governance agendas;

- FMRA will ensure that changes stemming from Lord Sharman's review of Audit and Accountability bed in with minimal problems,and increase the value obtained from the external audit process through the Audit Liaison Group;and

- FMRA will improve government use of payment services.

Whole of Government Accounts

- FMRA will complete the first 'dry run' CGA, incorporate lessons learned into preparation for the second 'dry run', and reach a final decision on an extension from CGA to WGA,and

- FMRA will lead in developing the Treasury's Single Data System.

Risk management

- FMRA will implement the November 2002 Strategy Unit risk report recommendations, working through cross-departmental networks;and
- FMRA will aim to link the risk programme to other government initiatives, promote better risk management across government and develop proposals for longer-term risk support arrangements.