



HM TREASURY

Whole of Government Accounts:

year ended 31 March 2011



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1 Foreword

1.1 Whole of Government Accounts (WGA) is a consolidated set of financial statements for the UK public sector. The aim of WGA is to enable Parliament and the public better to understand and scrutinise how taxpayers' money is spent, increasing the transparency and accessibility of the public finances.

1.2 WGA consolidates the audited accounts of more than a thousand organisations across the public sector, in order to produce a comprehensive, accounts-based picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector. It complements the National Accounts figures, produced by the Office for National Statistics (ONS), by providing a set of financial statements based on standards familiar to the commercial sector and the wider accountancy profession. WGA offers the opportunity for international comparisons of fiscal balance sheets to be made, provided that other countries' accounts are produced on a comparable basis.

1.3 WGA brings together financial information from central government, local government, the NHS and public corporations. As a result, it makes public a number of metrics which it has previously been difficult or impossible to calculate. In particular, the account includes:

- a consolidated Statement of Revenue and Expenditure;
- a consolidated Statement of Financial Position, showing public sector assets and liabilities;
- financial sector interventions, including equity investments in the public sector banks;
- a consolidated Cash Flow Statement; and
- a Statement on Internal Control.

1.4 The 2009-10 audited WGA was the first to be published and was released in November 2011 with the Comptroller and Auditor General's audit opinion which included a number of qualifications on the account. It is available on the Treasury website (www.hm-treasury.gov.uk).

1.5 As this is the second year of WGA there are now comparatives with the previous year. The values shown for 2009-10 take account of changes to accounting policies (principally the introduction of IFRS based accounting standards into local government), the inclusion of further bodies (e.g. Bank of England), as well as taking into account other changes in the underlying accounts which are minor in nature. The 2009-10 WGA has therefore been restated so that the two years are prepared on a consistent basis.

Economic and fiscal context

1.6 The financial position of the Government in 2010-11 reflected the performance of the economy in that year, the structural levels of receipts and expenditure, the financial position in previous years, and Government policy decisions. The economy recorded growth of 1.8 per cent, but was still 3.5 per cent smaller than the pre-crisis peak. The public sector net deficit receded from the 2009-10 level, but was still at near record levels in historical and international terms. Tax receipts are closely linked to the performance of the economy, and therefore reflected the path of employment, earnings and profits. Public spending reflected the impact of economic performance on cyclical areas of expenditure, such as social security, and the policy decisions of the Government. Claimant count unemployment was 1.47 million (2009-10: 1.58 million), while the unemployment rate was 7.8 per cent (2009-10: 7.9 per cent).

Governmental context

1.7 Following the UK General Election on 6 May 2010, a coalition government was formed on 12 May 2010 between the Conservatives and the Liberal Democrats, replacing the Labour government. The activity in 2010-11 reflects both the new policies of the new coalition government and the extant

policies of the previous administration. During 2010-11, there were a number of UK Government developments, which have a significant impact on figures included in these accounts.

1.8 In June 2010 the new Chancellor, Rt Hon George Osborne MP, presented the June 2010 Budget and set out plans to reduce the budget deficit and to support enterprise, as well as tax measures and welfare reforms. He announced £8 billion of additional net tax increases, including increasing the standard rate of Value Added Tax (VAT) to 20 per cent, and over £30 billion of spending reductions comprising £11 billion of welfare reform savings, £10 billion from lower debt interest payments, £6 billion of efficiency savings in 2010-11, and £3 billion savings from a two year freeze in public sector pay starting in 2011-12. On 20 October 2010 the Chancellor presented the Government's Spending Review which announced an average real central department budget cut of around 19 per cent over the Spending Review period and further savings and reforms in welfare, environmental levies and public service pensions. Further details are available on HM Treasury website: http://www.hm-treasury.gov.uk/d/junebudget_press_notice1.pdf and http://www.hm-treasury.gov.uk/spend_sr2010_documents.htm.

1.9 In the June 2010 Budget the Government announced that it intended to adopt the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the indexation of public service pensions from April 2011, impacting on the value of the pension schemes consolidated in WGA and reducing the value of the pension liabilities in the individual accounts of WGA entities. At the Spending Review in October 2010, the Government announced its intention to implement progressive increases to the level of employee contributions equivalent to 3.2 percentage points on average (apart from the Armed Forces Pension Scheme), to be phased in from April 2012. In March 2011, the Public Service Pension Commission headed by Lord Hutton and created by the Government to undertake a fundamental, structural review of public service pensions issued its final report with recommendations to the Government for the future design of public service pension schemes. This included the introduction of a defined benefit career average revalued earnings scheme which would give a pension based on average salary indexed by average earnings over the employee's career, rather than one based on final salary. The Government announced at the March 2011 Budget its acceptance of Lord Hutton's proposals as the basis for reform. More information is available from HM Treasury website (www.hm-treasury.gov.uk).

1.10 The Government also proposed to sell certain government assets if this represented value for money and to reform the number of public bodies. On 25 May 2010 the Government announced that it intended to introduce a Bill to allow for private sector investment in Royal Mail and accordingly the Postal Services Act 2011 was passed in June 2011. In the June 2010 Budget the Government confirmed it is examining the possibility of selling part of the student loans book, subject to confirmation that this would provide value for money. In October 2010, the Government announced its Public Bodies Reform proposals and proposed that, of the 901 bodies in the review, 192 should cease to be public bodies, 118 should be merged down into 57 successor bodies and 171 bodies to be subject to substantial reform while retaining their current status. Further details are available on the Government website: <http://www.number10.gov.uk>.

1.11 In October 2010, the Strategic Defence and Security Review (SDSR) was published and set out how the Government will deliver the priorities identified in the National Security Strategy. The review proposed reductions in staff numbers over the following five years: the Royal Navy by around 5,000 personnel; the Army by 7,000; the RAF by 5,000; and civilians by 25,000. No changes will be made to front line Army, Royal Marine or RAF Regiment units while operations in Afghanistan continue. Changes were announced to reduce the Department's assets, including the Royal Navy's ships and the air transport fleet. Following the SDSR announcements, an unquantifiable contingent liability also materialised, representing the unknown future liabilities from future cancellation and restructuring claims potentially arising from the renegotiation of contracts affected by SDSR decisions. Further details are available on the Ministry of Defence website (www.mod.uk).

1.12 Events occurring after 31 March 2011 that have significant relevance to these accounts have been described in Note 38 to the Accounts. These include subsequent developments in relation to the equity investments in the public sector banks, the sale of Royal Mail, and the Government's financial stability interventions.

2 Introduction

The scope of WGA

2.1 WGA includes about 1,500 bodies from central government, the devolved administrations, local government, the health service and public corporations as listed in Annex 1. These are broken down as follows, (summarised in chart 2.1):

- central government bodies, which are directly accountable to the UK Parliament, except for the Scottish Government, Welsh Assembly Government, and Northern Ireland Executive, which are accountable to their respective parliaments and assemblies;
- non-departmental bodies are a mixture of crown and non-crown bodies that undertake a range of functions and are accountable through their sponsoring departments to their respective parliaments and assemblies;
- NHS bodies are accountable to the Department of Health and the devolved administrations, while Foundation Trusts are accountable to Monitor (an independent regulator established to monitor the performance of Foundation Trusts);
- academies provide education to children of school age. They are independent of local government control and funded directly by the Department for Education;
- local government includes local authorities, police and fire authorities, national park authorities, waste disposal authorities, schools that are consolidated in local authority accounts, and other bodies classified to local government by ONS, such as Transport for London. Local and police and fire authorities are accountable to their local communities. Transport for London is accountable to the Mayor of London; and
- public corporations are created by statute (i.e. specific legislation) and are accountable to their sponsoring department and respective parliaments and assemblies.

2.2 HM Treasury identifies the entities to be included in WGA in accordance with the legislation that required WGA to be prepared¹. It is required to include entities that “exercise functions of a public nature” or that are “substantially funded from public money”. The Treasury’s decisions are consistent with the classification of entities to the public sector by the ONS. This is because the ONS takes account of these factors when making their classification decision as well as the degree of control that government has over each entity. As a result, the scope of WGA is similar to those included to produce other fiscal measures. This enables WGA to complement existing data and be a tool to support macro-economic management of the UK’s finances.

2.3 WGA excludes a number of entities largely for pragmatic and materiality reasons. More information on these is available in Annex 2 and Annex 3 to these accounts.

¹ Section 9 of the GRAA 2000

Chart 2.1: Composition of bodies within WGA

Central government	Central government departments, including devolved administrations	Non-departmental public bodies
		NHS Trusts
		Foundation Trusts
		Academies
Local government	England	Includes local authorities, police and fire authorities, and Transport for London
	Scotland	Includes local authorities, and police and fire authorities
	Wales	Includes local authorities, and police and fire authorities
	Northern Ireland	Includes local authorities, and police and fire authorities
Public corporations	Trading funds	
	Public corporations	
	Other bodies	

The objectives of WGA

2.4 The aim of WGA is to enable Parliament and the public to understand and scrutinise how taxpayers' money is spent. In particular, its objectives are to improve:

- **Transparency:** the accounts are prepared using standard accounting conventions that allow a wide range of users to understand the presentation of the figures and the framework that drives the numbers. Publication of the account supports the Government's agenda to make available more public data;
- **Accountability:** independent audit of the accounts by the NAO gives both Government and the outside world greater confidence in the figures supporting effective scrutiny by Parliament;
- **Completeness:** WGA brings together data similar to those produced for the Budget Report, the monthly Public Sector Finances report, the Public Expenditure Survey Analysis (PESA) and the National Accounts, but additionally includes data on public service pension assets and liabilities, provisions, PFI, future contract expenditure and contingent liabilities that are not included in these other data sources;
- **Comparability:** consistent data are required from all constituent bodies, and WGA is acting as a catalyst for the convergence of accounting policies across the public sector, enabling direct comparability of financial data; and
- **Complementary information:** there is a more complete and reliable balance sheet analysis of the Government's capital and long term financing positions, an accruals view of income and expenditure for the year, and more complete cash flow data which can support long term fiscal analysis and decision making.

2.5 The main objectives for the 2010-11 account were to improve the account by both widening its scope and by taking steps to harmonise further accounting policies.

2.6 Annex 5 of the 2010-11 account describes the steps that are planned over forthcoming years to ensure that WGA is more complete and internally consistent. In this context, the main objectives for the 2010-11 account were to:

- improve the consistency of the accounts by ensuring that all local government data are on an IFRS basis;
- address inconsistencies around PFI reporting to improve the disclosure of existing commitments;
- include the Bank of England for the first time; and

- bring forward certification of WGA by two months.

2.7 Local authorities were successful in moving to IFRS as the basis for their statutory accounts in 2010-11. This data has been taken as the basis for the 2010-11 WGA, and has eliminated the vast majority of the differences in accounting policy that existed. Whilst local authorities have now adopted IFRS, IFRS allows, in some cases, different accounting treatments, for example allowing the use of different valuation methods for highways infrastructure assets. As a consequence there remain some differences in accounting policies from other WGA bodies, all of which are minor in nature except for the treatment of highways infrastructure assets. Local authorities are working towards providing the data to eliminate this difference for the 2012-13 account.

2.8 Some improvements have been made to the collection of data on PFI. This has addressed some of the inconsistencies identified for the 2009-10 accounts, such that future commitments no longer contain a central estimate, but are now based on information provided by each entity. There are further improvements required to the disclosure of PFI contracts which aren't on the balance sheet, and these will be put in place for 2011-12.

2.9 The Bank of England has been fully consolidated into the 2010-11 account as planned. Additionally London and Continental Railways has also been included. Work has commenced on introducing Northern Rock Asset Management Ltd and Bradford and Bingley into WGA, and it is expected that consolidation of these entities will commence for the financial year 2013-14.

2.10 The production of WGA has been more efficient than the 2009-10 as important lessons learned have been embedded into working practices. At the same time new issues were encountered, which have caused delay. As a consequence we were able to publish the account in October, a month earlier than the 2009-10 account.

2.11 Opportunities are being explored to improve further completeness and consistency of the 2011-12 and 2012-13 account², before taking steps to improve significantly the speed at which it is produced.

2.12 Specifically for 2011-12 the main objectives are to:

- Complete planning activities for the consolidation of Northern Rock Asset Management Ltd and Bradford and Bingley.
- Consolidate a number of smaller entities which to date have not been included, such as Financial Services Compensation Scheme and Directly Operated Railways (see Annex 5).
- Mitigate further inconsistencies arising from legitimately different interpretations of the accounting guidance.
- Review the efficacy of the WGA data collection, with a view to improving the speed of production of the accounts.
- Achieve certification of the 2011-12 account earlier than previous years.

The origins and history of WGA

2.13 Parliament originally requested consolidated accounts for central government as long ago as the 1994-95 parliamentary session.² In July 1997, HM Treasury agreed to look at the feasibility of such accounts. The resulting 1998 scoping study³ concluded that producing consolidated accounts for the whole public sector was the best way to proceed and that this would bring benefits for both government and external users, because:

“such accounts would provide useful information additional to that in the National Accounts, and would be auditable. Users could therefore have real confidence that the figures they contained were constructed according to consistent well defined rules, which fit with the rules applied to the construction and presentation of commercial-style accounts.”⁴

² Public Accounts Committee Fifteenth Report, Session 1994-95

³ Published by HM Treasury, July 1998

⁴ Page 5, Conclusions and recommendations, WGA Scoping Study, July 1998

2.14 The commitment to produce WGA was initially made in the Code for Fiscal Stability⁵, and became a statutory requirement through the Government Resources and Accounts Act 2000 (GRAA)⁶. Whilst the GRAA created an obligation for Treasury to prepare WGA annually, it left the timetable for publication to be set at a later date.

2.15 The initial aim was to produce an audited account covering the central government sector for 2005-06. This was delayed until 2007-08 when the scope of the account was extended to include local government, NHS and public corporations. It was subsequently agreed that central government departments would move to IFRS, and so in the 2008 Budget, the then Chancellor announced that WGA would be published for 2009-10, in line with the move to IFRS in the central government sector.

2.16 Dry run accounts, starting in 2001-02, were initially produced for central government only, and were expanded to include local government, NHS and public corporations from 2005-06. The dry runs were used to inform the development of policies, processes and procedures. As part of the dry run process, progressive steps were taken to harmonise accounting standards across the public sector.

2.17 In 2010, the necessary parts of the GRAA were activated to enable publication. After consultation with the Comptroller and Auditor General (C&AG), it was agreed that:

- HM Treasury shall send accounts to the C&AG by the 28 February of the financial year following that to which the accounts relate;
- the Comptroller and Auditor General shall send the certified accounts and the report required by section 11(3)(b) of the Act to HM Treasury by the 31 October of the second financial year following that to which the accounts relate; and
- HM Treasury shall lay the accounts and report received under section 11(3)(b) of the Act before the House of Commons by 31 December of the second financial year following that to which the accounts relate.

2.18 In 2011, the first Whole of Government Accounts was published for 2009-10.

The complexities of WGA

2.19 Consolidating a large number of entities across the public sector that prepare their accounts under different accounting frameworks presents challenges in producing this account, especially in the initial years of publication. These include:

- defining the coverage of the public sector and therefore which entities to include;
- the diversity of entities, which have a number of different statutory bases and different accounting frameworks, as well as accounting policies within those frameworks;
- the elimination of thousands of transactions and balances that exist between different parts of the public sector; and
- the scale of the data collection exercise.

2.20 These financial statements are produced by HM Treasury which is not the controlling parent of all the entities consolidated. This effectively places limits on what can be mandated in terms of data quality, disclosure preparation, interpretation of accounting standards, and timeframes. Resolving audit issues in the accounts of individual entities or financial management issues can therefore be outside the immediate control of HM Treasury.

2.21 WGA highlights these inconsistencies and complexities, and as a consequence action is being taken over time to ensure greater accounting consistency, better data quality, and therefore better information on which to make decisions. However, in the first few years of publication, these inconsistencies and complexities are expected to give rise to concerns, and possibly audit qualifications, by the Comptroller and Auditor General.

⁵ Laid before Parliament under Section 155 of the Finance Act 1998 in November 1998

⁶ sections.9-11 of the Government Resources and Accounts Act 2000

WGA process

2.22 HM Treasury issues a Designation Order for England and Wales, designating the entities which must provide WGA information. A separate Designation Order is issued for Northern Ireland entities, while Scotland uses administrative powers.

2.23 All government entities complete data collection packs based on their audited annual accounts, with additional information provided on transactions and balances with other WGA entities. Entities must have the information audited.

2.24 Transactions and balances between WGA entities are eliminated as part of the consolidation (for consolidation judgements see paragraph 1.22.2 in the Notes to the Accounts). The information from the different accounting frameworks also needs to be aligned to produce a consistent set of disclosures.

2.25 The financial statements, accompanying notes and annexes, and associated reports are prepared by HM Treasury, reviewing the overall picture that the financial information provides, and reviewing the accounts to see if it meets its objectives and presents a consistent set of disclosures that satisfy the accounting standards and provides a true and fair view of the accounts for the Whole of Government. This is subject to management review and audit.

Governance framework

2.26 The Director General for Public Spending in HM Treasury is the Accounting Officer for WGA, and is accountable to Parliament for its preparation.

2.27 To support the Accounting Officer in her role, HM Treasury has formed a WGA Assurance Committee to provide advice to the Accounting Officer. The Assurance Committee members draw on a range of expertise to inform their advice. Committee members for the 2010-11 Account were:

- **Ian Rushby** (Chair) was a non-executive director of the Ministry of Defence and the Chair of its Audit Committee until 31 July 2011. He has held various business leadership, commercial, planning and control positions in BP plc, including Group General Auditor, and holds a number of non-executive directorships. Ian retired from the WGA Assurance Committee June 2012.
- **Steve Freer** is the Chief Executive of CIPFA. He is a board member of the Centre for Public Scrutiny and the Local Government Leadership Centre and is also an adviser to the International Federation of Accountants.
- **Mike Hathorn** is a partner at Moore Stephens LLP, leading the UK Public Sector Group. He is the former Chair of the International Public Sector Accounting Board and is a member of the Accounting Standards Board Committee on Accounting for Public-benefit Entities. He also chairs the Moore Stephens International and Europe Technical Committees, and holds a number of non-executive directorships.
- **Roger Marshall** is a member of the Financial Reporting Council and Chair of its Accounting Council. He was an audit partner with PricewaterhouseCoopers, leading audits on a number of FTSE and other large multinationals, chairing PwC's Global Audit Policy Board and its global Corporate Reporting Task Force. He serves on several Boards and committees including Old Mutual plc where he is Chair of the Audit Committee.
- **Richard Douglas** is the Director General of Policy, Strategy and Finance at the Department of Health and, from 1 April 2011, Head of the Government Finance Profession.
- **Simon Ridley** is the Director of Local Government Finance at the Department for Communities and Local Government with responsibilities to develop and maintain a framework for local government finance that supports the Government's fiscal consolidation, economic growth, localism and public service reform objectives.
- **Sue Owen** is the Director General of Strategy at the Department for Work and Pensions with responsibilities in the formulation of Government policy relating to the Government's welfare

and pension reforms and social justice agenda. She has been a Committee member from June 2012.

- **Sue Higgins** is the Director General for Finance and Corporate Services at the Department for Communities and Local Government. She is also the lead Finance Director on financial reporting across central government. She has been a Committee member from June 2012.

Institutional framework

2.28 WGA sits within a broad framework of institutions and publications that contribute toward public understanding and trust in Government accounts and fiscal statistics. In summary:

- the independent Office for National Statistics publishes timely economic and fiscal statistics, consistent with the internationally-agreed National Accounts framework. These figures are used for fiscal policy-making, and for international and historical comparisons;
- each public sector entity publishes audited annual accounts consistent with its agreed accounting framework;
- the National Audit Office, the Audit Commission, audit bodies in the devolved administrations and private sector audit bodies scrutinise and challenge these accounts, and produce an audit report on each;
- WGA consolidates these accounts to produce a consistent snapshot of the public sector financial position in a given year. As well as providing a coherent set of financial statements, this offers insights into the long-term sustainability of the public finances; and
- the Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances through its annual Fiscal Sustainability Report, which, among other sources of information, draws on the aggregates published in WGA.

2.29 As with the National Accounts, WGA does not offer the Government a set of policy prescriptions. Nor is it the primary tool for controlling expenditure and ensuring value for money. Its role is to provide a consolidated view of the Government's finances, with particular added value in the presentation of forward-looking liabilities.

3 Commentary

Key figures

Statement of Revenue and Expenditure

3.1 The Statement of Revenue and Expenditure sets out the scale and nature of the flows to and from the government. It shows that, in 2010-11, the public sector:

- received £614 billion (restated 2009-10: £583 billion) in taxation and other operating revenue, including income from direct taxation of £296 billion (2009-10: £285 billion), indirect taxation of £165 billion (2009-10: £148 billion), and local taxation of £54 billion (2009-10: £52 billion);
- spent £625 billion (restated 2009-10: £667 billion), including £204 billion (2009-10: £197 billion) on social benefit payments, and £193 billion (2009-10: £180 billion) employing staff. The largest elements of social benefit were the state pension at £74 billion (2009-10: £71 billion), and tax credits at £28 billion (2009-10: £27 billion). Staff costs included £152 billion (2009-10: £151 billion) in wages and salaries. Included in other expenditure is a one off reduction to spend of £126 billion which has arisen due to the change in the indexation used by public service pension schemes from the Retail Prices Index to the Consumer Prices Index;
- incurred £83 billion (restated 2009-10: £79 billion) on financing costs taking account of investment revenue, interest on the pension liability, and gains and losses on assets; and therefore
- has a total net deficit of £94 billion (restated 2009-10: £163 billion) or 6.4 per cent of GDP⁷ (2009-10: 11.7 per cent of GDP).

Chart 3.1: Summary of revenue and expenditure 2011



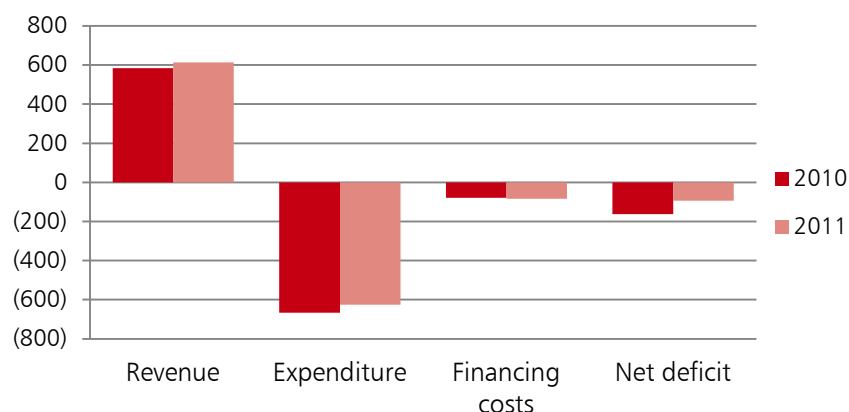
3.2 The total net deficit for 2010-11 was £94 billion; £69 billion (42 per cent) lower than 2009-10. There were a number of one off items affecting both 2010-11 and 2009-10, which means that the two years are not directly comparable. Performance in the year reflected:

- increased tax receipts;
- inflation related increases to social benefits;
- evidence of fiscal tightening through reductions to the purchase of goods and services, and the small increase to salaries and wages;
- increased borrowing and increased costs of financing this increased debt; and

⁷ Nominal GDP

- a number of one off items arising from the revaluation of assets and liabilities including public service pension liabilities

Chart 3.2: Revenue and Expenditure 2010 and 2011



Statement of Financial Position

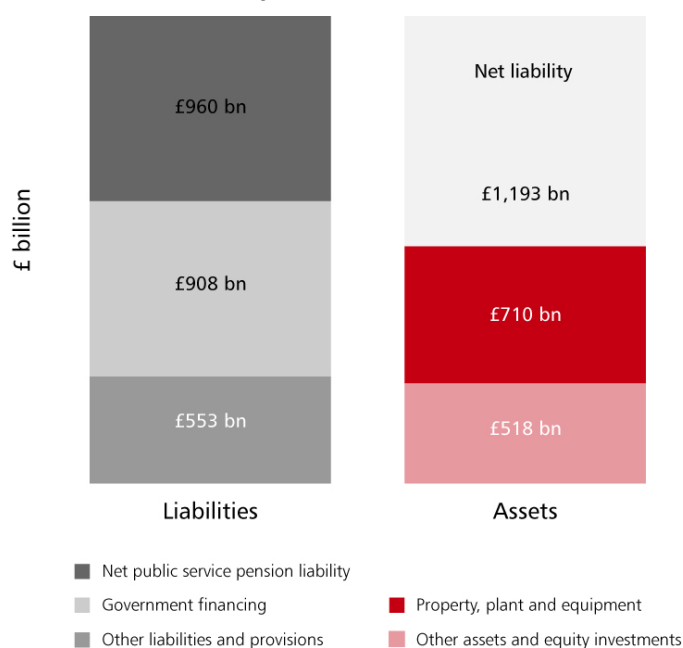
3.3 The Statement of Financial Position sets out the assets held and liabilities owed by the government, in a snapshot of the public sector balance sheet as at 31 March 2011. It shows that, at 31 March 2011, the public sector:

- held assets valued at £1,228 billion (restated 2009-10: £1,250 billion), including:
 - £710 billion (restated 2009-10: £713 billion) of property, plant and equipment, including buildings, infrastructure, equipment, hardware and software, PFI assets, plant and machinery, transport assets, and a range of other assets;
 - £57 billion (restated 2009-10: £61 billion) of equity investments in public sector banks;
 - £146 billion (restated 2009-10: £139 billion) of trade and other receivables, including £86 billion (2009-10: £81 billion) of accrued tax revenue and £28 billion (2009-10: £26 billion) of tax receivables before provisions; and
 - £315 billion (restated 2009-10: £337 billion) of other assets, including £55 billion (2009-10: £58 billion) of loans and advances by HM Treasury to financial institutions, £30 billion (2009-10: £28 billion) of student loans, and other assets such as intangible fixed assets, investment properties, inventories, debt securities, loans, deposits, and cash.
- had total liabilities of £2,421 billion (2009-10: £2,477 billion), including:
 - a £960 billion (restated 2009-10: £1,135 billion) liability for public service pensions;
 - £908 billion (restated 2009-10: £782 billion) of debt in the form of government borrowing and financing such as gilt-edged securities and Treasury bills;
 - £108 billion (restated 2009-10: £102 billion) of provisions; and
 - £445 billion (restated 2009-10: £458 billion) of other liabilities, including trade and other payables and obligations under leases and PFI of £182 billion (restated 2009-10: £177 billion), and deposits held by the Bank of England of £154 billion (2009-10: £170 billion).

The public sector therefore had a total net liability of £1,193 billion (2009-10: £1,228 billion) or 80.5 per cent of GDP⁸ (2009-10: 86.8 per cent of GDP).

⁸ Nominal GDP at 31st March

Chart 3.3: Summary of assets and liabilities in 2011



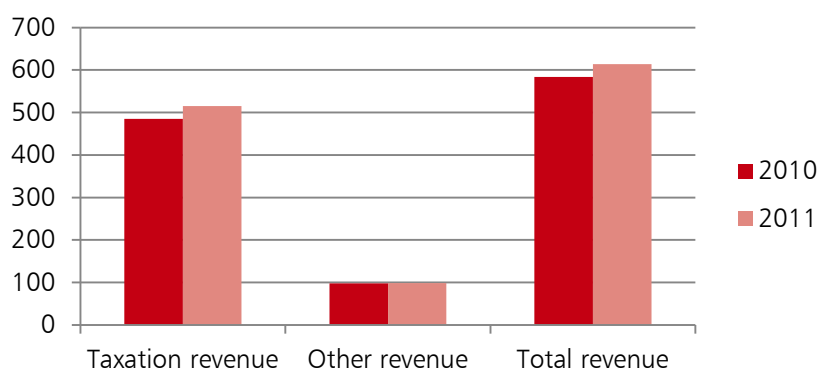
3.4 The servicing of this liability and the ongoing provision of public services is mainly met by tax revenue receipts. The Government has the ability to amend its taxation policy and framework from time to time to ensure these funding requirements are met. For this reason, the Accounting Officer adopts the going concern basis (valuing assets and liabilities on the basis that the Government will continue its functions) in preparing these financial statements. The nature of Government financing is such that WGA can be expected to show a net liability.

3.5 The key figures above show the net position after balances and transactions between public sector bodies have been eliminated. They report the income received from households and businesses outside the public sector and, on the same basis, the expenditure incurred and paid.

Revenue

3.6 The primary source of income is taxation, being 84 per cent of total public sector receipts. Taxes can be direct, indirect or collected by local authorities. The primary purpose of the tax system is to raise revenue to fund public services and the delivery of other Government objectives.

Chart 3.4: Revenue 2010 and 2011



Taxation revenue

3.7 Tax revenue increased by £30 billion in the year from £485 billion to £515 billion (6 per cent). This increase comes largely from VAT, corporation tax, and other indirect taxes such as petroleum revenue tax. This reflects both changes to the rates of taxation (e.g. the VAT rate increased from 15 per cent to

17.5 per cent on 1 January 2010 and to 20 per cent on 4 January 2011) as well as some improvement to the underlying level of economic activity.

3.8 VAT and Corporation tax increased by £12.1 billion (16 per cent) and £8.6 billion (23 per cent) respectively. Table 3.1 shows the year on year change in taxation revenue.

Table 3.1 Taxation revenue – changes on 2009-10

	2010-11	2009-10 restated	Change on 2009-10
	£ bn	£ bn	%
Income tax and social security	243.6	243.0	-
VAT	88.2	76.1	16
Local government taxes	52.8	52.1	1
Corporation tax	46.4	37.8	23
Hydrocarbon oils duty	27.2	26.3	3
Other indirect taxes	25.6	20.5	25
Excise duties	25.2	25.1	-
Other direct taxes	6.4	4.4	45
Total taxation revenue	515.4	485.3	6

3.9 Income tax was £158.1 billion (2009-10: £152.6 billion), and national insurance £85.5 billion (2009-10: £90.4 billion), together accounting for 47 per cent of all taxes. The improvement to income tax in the year was due to higher Pay As You Earn and National Insurance Class 1 receipts, reflecting an improvement throughout the year across most sectors.

3.10 VAT of £88.2 billion (2009-10: £76.1 billion) increased by £12.1 billion (16 per cent) in the year and accounted for 17 per cent of total tax receipts. The main reasons for the increase are the changes to the VAT rate, which returned to 17.5 per cent from January 2010, and then increased to 20 per cent from January 2011. Improvements to economic growth have also resulted in increased receipts.

3.11 Local government taxes include council tax, which is retained by local authorities, and national non-domestic rates, which are levied on local businesses and returned to central government. Council tax amounted to £30.2 billion (2009-10: £29.4 billion), an increase of 3 per cent and national non-domestic rates to £22.6 billion (2009-10: £22.7 billion), a decrease of 1 per cent. Council tax revenue is driven by the number of occupied properties and the annual rate set by authorities. Revenue from non-domestic rates, a fixed payment, regardless of profit has reduced because of lower business occupancy.

3.12 Corporation tax of £46.4 billion (2009-10: £37.8 billion) increased by £8.6 billion (23 per cent) in the year, and accounted for 9 per cent of total tax revenues. The increase is primarily due to an improvement in the economic position in the year with increased Corporation Tax receipts being an indication of an upturn in company profits over that period. The growth in receipts compared to 2009-10 is evident across all onshore and offshore sectors.

3.13 Hydrocarbon oils duty or fuel duty, a consumption led tax, was £27.2 billion (2009-10: £26.3 billion), £0.9 billion (3 per cent) higher mainly due to duty rate rises.

3.14 Excise duties, such as alcohol duty, and tobacco duties were £25.2 billion (2009-10: £25.1 billion), £0.1 billion (1 per cent) higher due to increases in duty rates offset by changes to the patterns of trade activity.

3.15 Other taxes, which account for 6 per cent of total tax revenue, were £32.0 billion (2009-10 £24.9 billion), £7.1 billion (29 per cent) higher. This increase is attributable to a number of factors including a £0.9 billion increase to stamp duty reflecting higher prices of residential properties and higher volumes of commercial sales, a £1.8 billion increase in capital gains tax as the 2009-10 receipts were depressed when taxpayers brought forward their disposals to avoid an effective increase in the capital gains tax rate, and £0.6 billion on petroleum tax revenue as a result of rising oil prices.

3.16 Taxes on income and indirect taxes were collected by Her Majesty's Revenue and Customs. Further information is available in its 2010-11 accounts which can be found on its website: www.hmrc.gov.uk

Non-tax revenue

3.17 The major component of non-tax revenue was revenue from the sale of goods and services. Local authorities received revenue from services provided to the public (£25.4 billion (2009-10: £28.3 billion)), which included fare revenue from the London bus and underground transport service (£3.3 billion (2009-10: £3.4 billion)). Revenue streams were earned by public corporations for services (£17.1 billion (2009-10: £16.1 billion)), such as postal services (£9.0 billion (2009-10: £8.4 billion)).

3.18 Income was also received from fees, levies and charges made by central government entities to recover the cost of services, rental income from social housing, grants from the EU, and receipts into pension schemes from employees and those employers that are not an entity within WGA.

Expenditure excluding finance costs

3.19 Total expenditure in 2010-11 was £624.9 billion (restated 2009-10: £667.2 billion), £42.3 billion (6 per cent) lower than 2009-10. The single largest contributing factor to this reduction is a one off adjustment arising from the Chancellor's decision to index pension payments using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). Table 3.2 below shows the year on year changes across the major expenditure categories.

Table 3.2 Expenditure – changes on 2009-10

	2010-11	2009-10 restated	Change on 2009-10
	£bn	£bn	%
Social security benefits	204.0	197.1	4
Staff costs	193.1	179.7	7
Pension past service costs	(126.0)	0.7	(18,100)
Purchase of goods and services	159.2	160.9	(1)
Grants and subsidies	68.4	66.2	3
Depreciation and impairment	80.4	51.6	56
Provision expense	18.3	(17.0)	208
Other expenditure	27.5	28.0	(2)
Total	624.9	667.2	(6)

3.20 The key components of expenditure are social security benefits, staff costs and the purchase of goods and services, which collectively account for 89 per cent (2009-10: 81 per cent) of total expenditure. The increase on 2009-10 for these items of expenditure amounted to £18.6 billion (3 per cent).

Social security benefits

3.21 Expenditure on social benefits increased in the year by £6.9 billion from £197.1 billion to £204.0 billion (4 per cent). This increase reflects the uprating of benefits, pensions and tax credits in line with inflation, as well as an increase in the number of pensioners, the number of families in work receiving tax credits, and higher rents being claimed as part of housing benefit.

3.22 The state pension was the largest benefit £74.1 billion (restated 2009-10: £71.4 billion), accounting for 36 per cent of all benefits. This benefit increased by £2.7 billion (4 per cent), due to the up-rating of pensions in line with inflation, and due to a net increase in pensioners.

3.23 Tax credits accounted for 14 per cent of benefits, and was £28.1 billion (2009-10: £26.8 billion), £1.3 billion (5 per cent) higher than the previous year. This was due to the up-rating of the rates of tax credit, policy changes that increased the value of the child element above average earnings, and an increase in the number of families in work receiving tax credits.

3.24 Housing and other local government benefits amounted to £29.3 billion (2009-10: £27.9 billion), £1.4 billion (5 per cent) higher than the previous year and accounted for a further 14 per cent of all social security benefits. The increase in the year was due to higher rents being claimed as part of housing benefit.

3.25 The disability living allowance was £19.1 billion (2009-10: £17.7 billion), £1.4 billion (8 per cent) higher than the previous year, and accounted for 9 per cent of social security benefits. This increase was due to a number of factors, including the increase of the allowance in line with CPI.

Staff costs

3.26 Staff costs were the net cost to the government of employing staff in the public sector including those involved in the delivery of front line services. The net cost does not include national insurance and some pension costs, as they do not form part of the net cost to the public sector. Staff costs include the salaries of permanent staff, temporary staff and contractors. More details of staff costs and numbers are provided in Note 7.

3.27 Expenditure on wages and salaries was broadly flat over the two years due to a reduction in staff numbers and pay restraint, offset by increases as staff in parts of the public sector pass through pay progression points. There was an overall increase in staff costs of £13.4 billion from £179.7 billion to £193.1 billion, and this was largely due to an increase in pension scheme costs, which reflected actuarial assessments of pension charges for the year. These charges are sensitive to changes in discount rates applied when calculating the pension liability. Decreases (or increases) to the discount rate for the prior year increase (or decrease) the pension cost for the current year. As a consequence, the decrease in the discount rate in 2009-10 has adversely impacted the pension charge in 2010-11.

Pension past service costs and indexation adjustment

3.28 There were a number of one off items affecting expenditure, the most significant being the reduction to expenditure of £126.0 billion due to the change from using the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) for the indexation of public sector pensions. As a result of this change, an adjustment has been made to the pension liability for the pension rights that have been earned in the past (past service charge).

3.29 Pension past service costs relate to increases/decreases in the present value of the scheme liabilities in the current year related to employees' past service, which have resulted from the introduction, change, or improvement to retirement benefits.

Purchase of goods and services

3.30 Goods and services were purchased to meet operational requirements. This included the maintenance of public sector buildings, such as schools and hospitals, maintenance of the London underground network, maintenance of the road network, the purchase of equipment for the armed forces, materials for schools, and medicines, as well as administrative costs, such as rent and utilities. The total value of goods and services purchases was £159.2 billion (2009-10 £160.9 billion), a £1.7 billion (1 per cent) reduction on the prior year. Taking account of inflation this represents a 3.8 per cent real reduction. This reduction is as a result of fiscal tightening, with, in particular, a tightening of controls in central government.

3.31 The value of goods and services purchased by central government was £82.0 billion (2009-10: £83.7 billion) (which included military spend and health), £69.0 billion (2009-10: £68.9 billion) by local government (which included Transport for London and the majority of schools), and £8.2 billion (2009-10: £8.3 billion) by public corporations.

Grants and subsidies

3.32 The public sector makes grant and subsidy payments to private sector and third sector organisations to deliver public services or to facilitate their delivery. Grants can be given to fund the creation of new assets (capital grants), or to support ongoing services (revenue grants or subsidy payments). Total grants and subsidies were £68.4 billion (2009-10: £66.2 billion), of which £14.3 billion (2009-10: £15.6 billion) were capital and £54.1 billion (2009-10: £50.6 billion) were revenue.

3.33 The largest grant of £19.5 billion (2009-10: £20.4 billion) was in relation to education services funded by the Education Funding Agency (formerly Young Peoples Learning Agency), the Skills Funding Agency, and the higher education funding councils.

3.34 The UK's contribution to the European Union's budget was £8.4 billion (2009-10: £6.4 billion), being the amount the UK pays directly to the EU less any subsidies.

Depreciation and impairments

3.35 Depreciation and impairment charges for the year were £80.4 billion (2009-10: £51.6 billion), £28.8 billion (56 per cent) higher than the previous year. The charges in the year comprised depreciation and amortisation of tangible and intangible non-current assets of £27.4 billion (2009-10: £25.1 billion), and impairments and revaluations of £53.0 billion (2009-10: £26.5 billion).

3.36 Impairments included £41.7 billion (restated 2009-10: £18.7 billion) of permanent reductions to the value of non-current assets, such as property, that reduced their value below their original value. Impairments increased by £23.0 billion (123 per cent) in year, mostly as a consequence of the revaluation of local authorities' social housing, where the adjustment factor in the prescribed calculation for assessing the social value of local authority housing stock was significantly reduced. The decrease in the book value of social housing estates reflects an update to the revaluation guidance used by local authorities in valuing their estates. This update, amongst other things, has taken account of more recent information available about the difference between public and private sector rents and yields, which has had the effect of reducing the book value of such properties. Any potential loss through impairment would only be realised if the assets were sold at their social value rather than the actual market value of the properties. Other significant impairments were recognised by the Ministry of Defence (£7.0 billion (2009-10: £1.2 billion)) due to the write offs of assets resulting from the Strategic Defence Security Review.

3.37 Impairments to receivables were £5.5 billion (2009-10: £7.2 billion). This included £4.7 billion (restated 2009-10: £6.0 billion) of irrecoverable tax-related debts, a reduction of £1.3 billion (22 per cent) on the previous year. The impairment reflects the value of debts that HM Revenue & Customs considered to be irrecoverable because there was no practical means for pursuing the liability, for example because of insolvencies which limited the ability to recover tax due. In addition, part of this year's impairment resulted from special exercises conducted by HMRC to write-off time-barred and aged irrecoverable debt. A prudent view of tax collectable continues to be taken, given the prevailing economic conditions.

Net financing cost

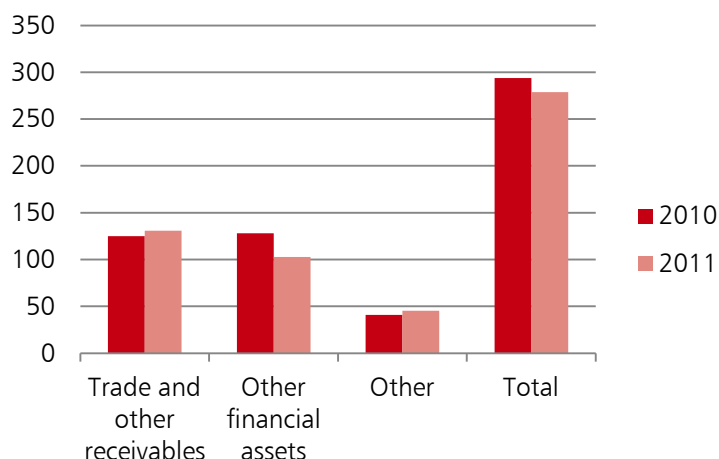
3.38 The net financing cost was £83.2 billion (2009-10 restated: £78.6 billion), £4.6 billion (6 per cent) higher than the previous year. Increases on interest on pension scheme liabilities (£60.8 billion (2009-10: £58.9 billion)) and finance costs (£40.5 billion (restated 2009-10: £33.1 billion)) have been partially offset by increases in expected return on pension scheme assets of £13.0 billion (2009-10: £9.0 billion) and investment revenue of £5.1 billion (restated 2009-10: £4.4 billion). Interest costs in respect of government borrowing and financing increased by £5.0 billion from £30.7 billion to £35.7 billion in the year, due to higher levels of government borrowing built up as the economy entered recession, partly offset by reductions to the interest rate. These are discussed below in relation to net public service pension liability (paragraphs 3.59 to 3.67) and Government borrowing and financing (paragraphs 3.68 to 3.71).

Working capital

3.39 Working capital is a measure of current assets less current liabilities and stood at negative £308.8 billion (2009-10 restated: negative £296.1 billion). The decrease in working capital reflected the movement in current government financing liabilities of £217.2 billion (2009-10: £200.9 billion), being gilts to be repaid in 2011-12. The components of current assets and current liabilities are shown below.

Current assets

Chart 3.5: Current assets 2010 and 2011



3.40 Current trade and other receivables are amounts owed to the public sector due within the next year through the day to day operations of the public sector. Trade receivables included tax debtors (£23.1 billion (2009-10: £23.8 billion)), which are amounts notified to taxpayers but not yet collected. It also included an estimate of tax due but not yet advised to taxpayers (£85.8 billion (2009-10: £80.9 billion)). Tax estimates are necessary because tax reporting cycles mean that tax is generally paid and calculated after the period to which the tax related. By category, this estimate included income tax of £27.8 billion (2009-10: £26.1 billion), value added tax of £25.6 billion (2009-10: £22.1 billion), corporation tax of £14.4 billion (2009-10: £13.0 billion) and national insurance contributions of £11.4 billion (2009-10: £11.5 billion).

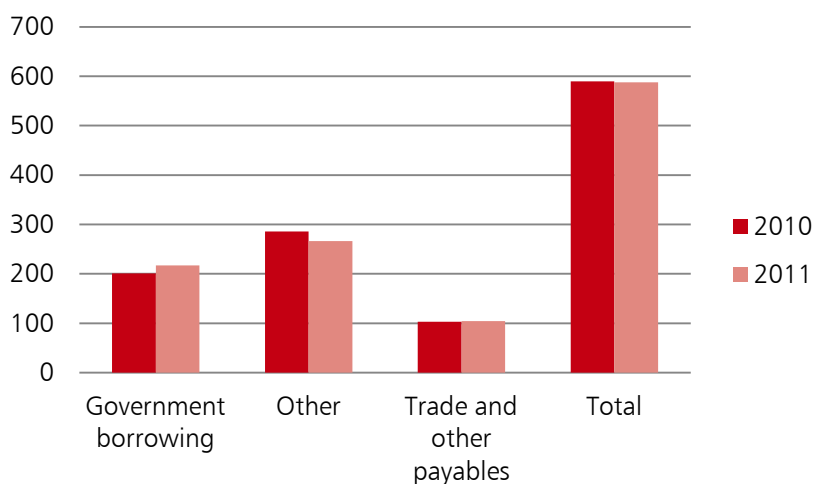
3.41 Trade receivables included a current provision for bad debt of £14.0 billion (restated 2009-10: £16.3 billion). The majority of this related to tax, where the estimate of tax at risk of not being collected is £10.0 billion (2009-10: £10.9 billion). All provisions were estimated, having regard to the level of debts not recovered during 2010-11 and earlier years.

3.42 Other financial assets included loans and advances to banks and other financial service entities by the Treasury of £54.9 billion (2009-10: £57.5 billion), funds advanced to banks and central clearing counterparties under reverse sale and repurchase agreements (where securities were held as collateral and then returned when the funds were returned) of £18.9 billion (2009-10: £48.1 billion), the Government's holdings of debt securities issued by foreign governments of £29.2 billion (restated 2009-10: £23.9 billion), and the holding of International Monetary Fund (IMF) Special Drawing Rights of £9.2 billion (2009-10: £9.2 billion).

3.43 Other current assets are formed predominately of inventories which included consumable items such as military equipment and medical items, as well as finished goods for resale and assets to be sold under long term contracts. The Ministry of Defence held 64 per cent (2009-10: 60 per cent), £7.7 billion (2009-10: £7.2 billion), of all public sector inventories. It received an audit qualification in respect of its inventory, and is part way through a programme to address the weaknesses that led to this opinion. Details are available in its 2010-11 accounts.

Current liabilities

Chart 3.6: Current liabilities 2010 and 2011



3.44 Trade and other payables are the amounts of money owed by the public sector to private and third sector suppliers, households, and financial and international institutions. As at 31 March 2011, trade and other payables comprised: trade and other payables for goods and services provided to the private and third sector (£41.3 billion (2009-10: £43.1 billion)), accruals and deferred income for goods and services received but not invoiced at the year-end or monies received for services not yet provided (£33.9 billion (2009-10: £30.0 billion)), and amounts owed to taxpayers in respect of tax overpayments, refunds and receipts in advance of the tax period (£22.2 billion (2009-10: £22.4 billion)). With the exception of tax creditors, which were largely in HMRC, no one part of the public sector contributed significantly to these creditor balances.

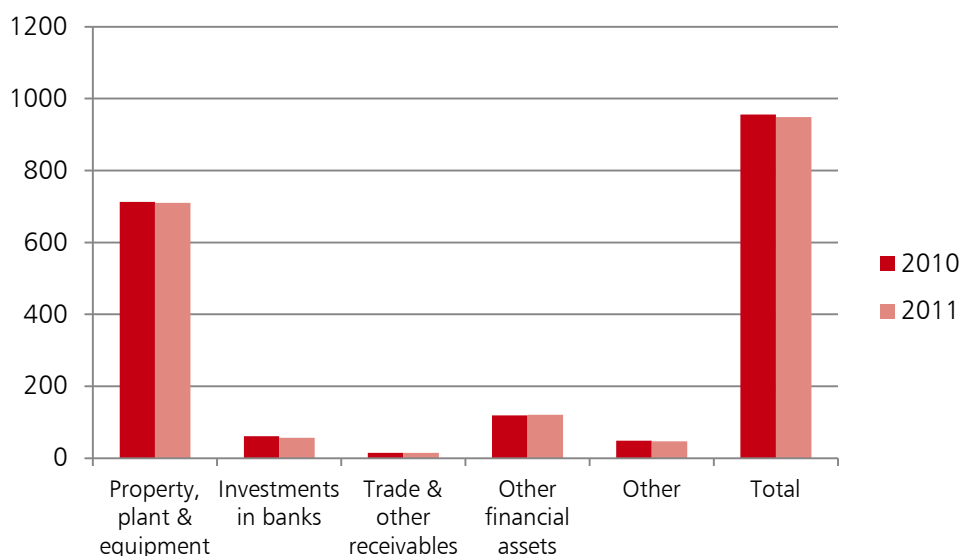
3.45 The trade payables balance reflected the government's supplier payment policy for central government. From November 2008, the government introduced a 10 day payment target for Small and Medium Enterprise (SME) suppliers to receive payment.

3.46 Other financial liabilities included amounts that banks deposited with government of £189.3 billion (restated 2009-10: £206.3 billion) as part of the government's cash management operations, and a liability to the International Monetary Fund (IMF) for the UK's allocation of IMF Special Drawing Rights of £10.0 billion (2009-10: £10.1 billion).

3.47 Government borrowing and financing is discussed in more detail in paragraphs 3.68 to 3.71 below.

Non-current assets

Chart 3.7: Non-current assets 2010 and 2011



Property, Plant and Equipment

3.48 Property, plant and equipment of £710.0 billion (2009-10 restated: £712.8 billion) included all of the assets owned by the public sector to carry out its functions. It included £335.1 billion (2009-10 restated: £357.2 billion) of land, buildings and dwellings (e.g. schools, hospitals and social housing), £254.1 billion (restated 2009-10: £234.3 billion) of infrastructure (e.g. roads and the London Underground), and £35.7 billion (2009-10: £36.0 billion) of military equipment. There were reductions to buildings, dwellings and land, military equipment and assets under construction, offset principally by increases to infrastructure assets as set out in Table 3.3.

Table 3.3 Property, plant and equipment – changes on 2009-10

	2010-11 £ bn	2009-10 restated £ bn	Change on 2009-10 %
Infrastructure assets	254.1	234.3	8%
Buildings, dwellings and land	335.1	357.2	(6%)
Assets under construction	41.6	43.8	(5%)
Military equipment	35.7	36	(1%)
Other	43.5	41.5	5%
Net book value	710.0	712.8	-

3.49 The reduction in the net book value of land, buildings and dwellings was largely due to impairments to social housing due to a change in the methodology for valuing local government social housing. The valuation of the social housing estate held by local government applies an adjustment factor to the cost of buying a vacant dwelling of a similar type, to reflect the fact that the property is used as social housing. Adjustment factors are prescribed in guidance and were reviewed in 2010 given the significant changes in the housing market since the previous guidance in 2005. The adjustment factors were significantly reduced, mainly due to the difference in private and public sector rents and yields, as over that period there was significant growth in vacant possession values, falling yields in the private rented market and continued rent restructuring in the public sector.

3.50 Asset disposals in the year had a net book value of £7.8 billion (2009-10: £5.1 billion). This reflects the disposal of local authority buildings, the write off of military equipment following the strategic defence review and the disposal of life expired plant and machinery.

3.51 These decreases in the net book value of assets were partly offset by an increase in the value of the motorway and trunk road network, which was primarily driven by the increase to the rate of VAT and indexation of materials.

3.52 Infrastructure assets include highways infrastructure assets (HIA) held by local authorities (£51.8 billion (2009-10: £49.1 billion)) and by the Highways Agency in central government (£98.7 billion (2009-10: £86.9 billion)). Local authorities prepared their accounts using historical costs as compared to the depreciated replacement cost basis (which better reflects the value of the asset) used by all other government entities. This means that local authority infrastructure assets are undervalued. The best proxy available for the depreciated replacement cost of local government HIA is the calculated asset value used by the Office for National Statistics from their perpetual inventory model, which estimated the value of the road network at £260 billion (2009: £248 billion) as at 31 December 2010. Therefore, infrastructure assets are likely to be understated by at least £200 billion. As required by HM Treasury, local authorities are working towards calculating a depreciated replacement cost valuation of HIA for inclusion in the 2012-13 Whole of Government Accounts.

Equity investments

3.53 Equity investments in the public sector banks totalled £56.5 billion (restated 2009-10: £61.1 billion) at 31 March 2011. The value of the government's investments decreased by £4.6 billion reflecting a reduction in the share value at 31 March 2011. Shares are revalued annually to reflect the share price at the balance sheet date, and are therefore subject to fluctuations.

Other non-current assets

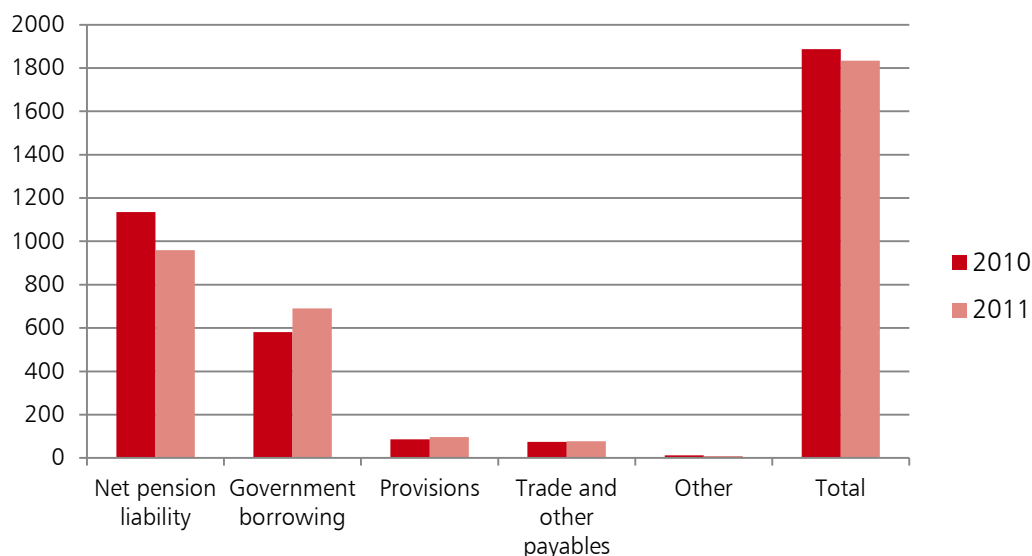
3.54 Other non-current financial assets included loans and advances to financial institutions by HM Treasury (£54.9 billion (2009-10: £57.5 billion)), student loans (£27.8 billion (2009-10 restated: £26.1 billion)), equity investments other than in the public sector banks (£15.9 billion (restated 2009-10: £14.6 billion)), and the UK's Quota Subscription to the IMF (£10.6 billion (2009-10: £10.8 billion)). Loans and advances to banks and other financial services entities included those made to Northern Rock Asset Management (£21.6 billion (2009-10: £23.0 billion)), the Financial Services Compensation Scheme (£18.8 billion (2009-10: £19.3 billion)) and Bradford and Bingley (£10.7 billion (2009-10: £10.7 billion)). In most cases, these loans are due to be repaid in accordance with agreed business plans and are interest-bearing. Equity investments include investments in the European Investment Bank (£5.8 billion (2009-10: £5.5 billion)), and investments in international financial institutions held by the Department for International Development (£3.1 billion (2009-10: £3.3 billion)).

3.55 The value of student loans due to be collected after 1 April 2013, reflects an estimate of the present cost of subsidising interest on loans over the life of the loan (interest subsidy impairment) and an estimate of the future cost of policy write offs (policy write off impairment), which reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student. It also reflects a revaluation of the provisional interest rates have been lower than had previously been modelled into the provision. Further details regarding student loans are available in the 2010-11 accounts of the Department for Business, Innovation and Skills.

3.56 Intangible assets held by the public sector relate primarily to IT software and associated development costs. The largest elements of intangible assets were military equipment, such as aircraft communication and software systems (£21.7 billion (restated 2009-10: £22.4 billion)), development expenditure (£5.9 billion (restated 2009-10: £7.3 billion)) and software licences (£3.8 billion (restated 2009-10: £3.7 billion)).

Non-current liabilities

Chart 3.8: Non-current liabilities 2010 and 2011



3.57 Non-current trade and other payables included amounts payable under PFI contracts (£31.0 billion (2009-10: £27.2 billion)), bank and other borrowings falling due after more than one year (£26.8 billion (2009-10: £25.8 billion)), and amounts owed in line with contractual obligations (£16.5 billion (2009-10: £15.5 billion)). PFI contracts are discussed in more detail in paragraphs 3.81 to 3.84 below.

3.58 The largest non-current liabilities are net public service pension liabilities and government borrowing and financing. Details of these liabilities are in paragraphs 3.59 to 3.67 below (net public service pension liability), and 3.68 to 3.71 (government borrowing and financing). Other non-current financial liabilities included financial guarantees provided by the Government under a range of contracts of £5.2 billion (2009-10: £6.0 billion).

Pension liability

3.59 The Government operates a range of defined benefit funded and unfunded pension schemes for past and present public servants. Schemes are administered by central government departments, devolved administrations, other public entities (such as local government entities) or independent trustees. Information on the specific schemes can be found in the annual report of the responsible entities.

3.60 The major public service schemes, with the exception of the local government scheme, are unfunded. For these unfunded schemes, expenditure on pension payments is met from general taxation. The liability will be paid out over time as employees retire and draw their pension over a number of years. The net pension liability is shown below by type of scheme.

Table 3.4 Net pension liability by type of scheme

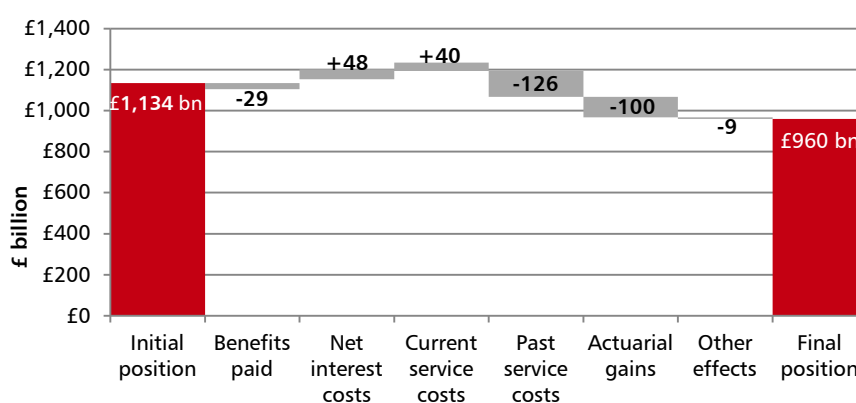
	2010-11 £bn	2009-10 £bn	Change £bn
Unfunded schemes (gross)			
Teachers (UK)	222.8	258.2	(35.4)
NHS (UK)	292.3	328.7	(36.4)
Civil Service	145.0	163.5	(18.5)
Armed Forces	99.7	120.7	(21.0)
Police	93.8	101.6	(7.8)
Fire	19.8	21.1	(1.3)
Other unfunded	19.9	21.8	(1.9)
	893.3	1,015.6	(122.3)
Funded schemes (net)			
Local Government	57.1	100.4	(43.3)
Other funded	9.1	16.3	(7.2)
	66.2	116.7	(50.5)
Total net pension liability		1,132.3	
Restatement		2.4	
Total net pension liability (restated)	959.5	1,134.7	(175.2)

3.61 Public service pensions form a significant part of the Government's total liabilities, with a total net liability of £959.5 billion as at 31 March 2011 (restated 2009-10: £1,134.7 billion).

3.62 The scale of the net pension liability is determined by the way public service pension schemes are run, and how accounting standards stipulate it must be recorded. Total pension liabilities reflect the net present value of the total liability owed to current pensioners, deferred pensioners who are no longer in employment but are waiting to receive a pension when they reach retirement age, and current employees who will receive a pension on retirement. The liability allows for salaries projected to retirement or earlier leaving date, but only reflects the number of years of service to date. The liability does not reflect the pension that may be paid to current employees in respect of future years of service to retirement or to future employees. Hence, while the balance of liabilities versus assets does represent the total liability faced by the public sector as calculated under accounting standards, it represents only a partial assessment of how pensions will affect the public finances in the future.

3.63 The chart below shows an analysis of the change in the net public service pension liability over 2010-11. Much of the information behind this move has already been made available through publications by the major public service pension schemes. An analysis of the liability is provided in Note 27 to the accounts.

Chart 3.9: Change in the net public service pension liability in 2010-11



3.64 The decrease in the pension liability of £175.2 billion in year largely reflected the Government's decision to change from RPI to CPI for the indexation of public sector pensions, which resulted in a £126.0 billion one-off adjustment this year, included in past service costs above (2009-10: £0.7 billion). The move from RPI to CPI lowers the value of the pension for services provided in the past and is likely to mean that the pension liability will remain smaller, as in the long term CPI is lower than RPI.

3.65 The decrease in the pension liability also reflects actuarial gains of £99.9 billion (2009-10: loss of £286.8 billion) which arose due to changes in actuarial assumptions and an increase in the rate at which future payments are discounted to reflect their present value from 1.8 per cent to 2.9 per cent.

3.66 There are a number of key actuarial assumptions that are used to calculate public service pension liabilities. These include the rate of increase in salaries and pensions inflation as well as the discount rate. As with all long-term economic projections, these assumptions are inherently subject to significant uncertainty. The value of the public service pension liability is very sensitive to changes in these assumptions.

3.67 The value of the public service pension liability is also sensitive to changes in the discount rate. The accounting standards require that entities set the discount rate to reflect the yield on high quality corporate bonds. Central government schemes use a centrally set real discount rate determined by HM Treasury, having obtained advice from the Government Actuary's Department. Other entities set their own discount rate, generally after obtaining the advice of an actuary. The centrally set discount rate (in excess of inflation) changed from 3.2 per cent as at 31 March 2009 to 1.8 per cent (in excess of RPI) as at 31 March 2010 to 2.9 per cent (in excess of CPI) as at 31 March 2011, reflecting movements in real yields on high quality corporate bonds, which are used as the basis for the discount rate calculation, and the change from RPI to CPI as the inflation assumption which reflects the long-term assumption used in Treasury forecasting at that time. The decrease in the discount rate from 2009 to 2010 affects the 2011 current service charge which is calculated by the individual scheme actuaries using the discount rate at the start of the year. The increase in the discount rate from 2010 to 2011 affects the actuarial gains and losses as well as the net interest costs.

Government borrowing and financing

3.68 Government borrowing and financing comprises gilt-edged securities, National Savings and Investments (NS&I) products and Treasury bills. Gilt-edged securities, or gilts, are UK Government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Prices Index. As the Government's debt manager, the Debt Management Office (DMO) sells gilts to the market to ensure sufficient funding is available to meet the Government's financial commitments. National Savings and Investments (NS&I) is one of the largest providers of savings and investments in the UK and the products also provide financing to the Government. In addition, the DMO issues Treasury bills and undertakes other money market operations to meet the Government's daily cash requirements.

3.69 As at 31 March 2011, the Government had current borrowing and financing liabilities due to be repaid within a year of £217.2 billion (2009-10: £200.9 billion), comprising National Savings and Investment products (£98.9 billion (2009-10: £98.8 billion)), Treasury bills (£63.6 billion (2009-10: £63.0 billion)) and gilt-edged securities (£54.7 billion (2009-10: £39.1 billion)). In addition, it had non-current gilt-edged securities of £691.0 billion (restated 2009-10: £580.9 billion) that need to be re-paid over longer periods than a year.

3.70 In total, Government borrowing and financing liabilities increased by £126.4 billion. This reflects the gap between current receipts and expenditure and funding of commitments from previous years.

3.71 The UK made total interest repayments of £35.7 billion (2009-10: £30.7 billion) in 2010-11. Finance costs of government borrowing increased by £5.0 billion, as both gilt stock and the Retail Prices Index (RPI) increased.

Provisions

3.72 Provisions represent the best estimate of the liability for an expected future expense, arising from events that have happened in the past, that have been discounted to present value. The Government's obligations are reviewed on a regular basis and provisions are updated accordingly.

3.73 As at 31 March 2011, provisions amounted to £108.1 billion (2009-10 restated: £102.2 billion), an increase of £5.9 billion (6 per cent) in the year. As with 2009-10 the most significant provisions are the nuclear decommissioning provision and the provision for clinical negligence.

3.74 The provision of £60.9 billion (2009-10: £56.7 billion) for nuclear decommissioning includes the cost of dealing with radioactive waste, nuclear fuels and materials, capital facilities, redundant facilities and contaminated materials. The provision and recoverable balances are expressed at current price levels to take account of the time value of money for the very long timescales over which work will be carried out, currently expected to be over 100 years. The ultimate liability will vary as a result of the subsequent information and events, and may result in significant changes to the overall costs of decommissioning. The provision increase in the year reflects changes to the estimates of future decommissioning costs.

3.75 The clinical negligence provision of £17.5 billion (2009-10: £15.7 billion) reflects an actuarially determined assessment of individual incidents that have occurred, where it is more than 50 per cent probable that the claim will be successful and the amount of the claim can be reliably estimated, taking into account likely costs to resolve the claim and historic probability factors. Clinical negligence claims which may succeed, but which are less likely or cannot be reliably estimated, are disclosed as contingent liabilities. The increase in the provision is due to the faster reporting of claims rather than a systematic increase in the incidence of clinical negligence.

3.76 The Government also held a number of other provisions totalling £29.7 billion (2009-10 restated: £29.8 billion), which includes provisions for taxes subject to challenge, in relation to legal cases, matters relating to medical costs and government schemes such as the Financial Assistance Scheme.

Contingent liabilities

3.77 Contingent liabilities are liabilities associated with events that, while possible, are considered sufficiently improbable (or unquantifiable) that they are not included in the Statement of Financial Position. WGA includes those contingent liabilities that were discloseable in accordance with accounting standards, and also goes further to show other commitments, even though the likelihood of them occurring is considered to be remote.

3.78 The majority of the Government's quantifiable and remote contingent liabilities arise from the guarantees and indemnities provided as part of the financial stability interventions. As detailed in HM Treasury's 2010-11 accounts, they include:

- an agreement to provide contingent capital to the Royal Bank of Scotland (£8.0 billion (2009-10: £8.0 billion));
- an agreement to provide capital to meet regulatory requirements of Northern Rock Plc and Northern Rock (Asset Management) Plc (£1.6 billion (2009-10: £1.7 billion));
- financial stability interventions where the likelihood of the liability crystallising is remote, e.g. the Asset Protection Scheme (£110.0 billion (2009-10: £153.8 billion)), the Credit Guarantee Scheme (£115.0 billion (2009-10: £125.0 billion)), and guarantees and indemnities in relation to Northern Rock Plc and Bradford & Bingley Plc (£20.6 billion (2009-10: £29.8 billion)); and
- non-quantifiable contingent liabilities arising from the financial interventions, including:
 - indemnities to the directors of Northern Rock Plc, Northern Rock (Asset Management) Plc, Bradford & Bingley Plc, and related companies such as United Kingdom Asset Resolution Plc;

- o a guarantee to the Financial Services Authority that HM Treasury will ensure that Northern Rock (Asset Management) Plc and Bradford & Bingley Plc will meet their regulatory capital requirements; and
- o compensation schemes established in relation to Northern Rock Plc, Bradford & Bingley Plc and Dunfermline Building Society.

3.79 There are a number of other potentially significant contingent liabilities, details of which can be found in the accounts of the relevant department. These include:

- legal claims, compensation claims and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made;
- commitments made by a number of WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded. This includes the Financial Assistance Scheme in relation to certain fully funded pensions and other associated benefits in qualifying schemes, as detailed in the 2010-11 accounts of the Department for Work and Pensions;
- indemnities to cover civil nuclear liabilities and claims for damage caused by nuclear matter in the course of carriage, as detailed in the 2010-11 accounts of the Department for Business, Innovation and Skills;
- indemnities and guarantees in respect to rail franchising agreements, and the Network Rail debt issuance programme and standby credit facility, as detailed in the 2010-11 accounts of the Department for Transport;
- the UK's share of European Commission guarantees to EU Member States and Third Countries in respect of borrowing and lending operations, guarantees to the European Investment Bank (EIB) for financing in respect of European loans, and callable capital on investments in international financial institutions, including the EIB and regional development banks, as detailed in the 2010-11 accounts of the Consolidated Fund and the Department for International Development;
- reinsurance arising from acts of terrorism, as detailed in the 2010-11 accounts of HM Treasury; and
- guarantees, indemnities and letters of comfort in respect to the Olympic and Paralympic games, as detailed in the 2010-11 accounts of the Department for Culture, Media and Sport and the Olympic Delivery Authority.

3.80 A number of guarantees and indemnities exist between HM Treasury and the Bank of England. These are not disclosed in Whole of Government Accounts, as both bodies are included in the consolidated financial statements. Further information is available in HM Treasury's 2010-11 accounts.

Private Finance Initiative

3.81 Private Finance Initiative (PFI) projects are schemes involving the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk from the public sector to the private sector, relating to the design, construction, maintenance and/or operation of assets. In return, the Government pays an annual charge over the lifetime of the contract, which is typically 25-30 years.

3.82 There are three key elements to the annual charge: the service element to run the project (which could include cleaning, catering, maintenance and security), repayment of the capital asset built and interest on the capital. Note 30 shows the Government's commitments to PFI contracts as at 31 March 2011.

3.83 At 31 March 2011 the net book value of PFI assets was £34.9 billion (2009-10: £30.9 billion), and the associated liability for capital repayments was £32.0 billion (2009-10: £28.1 billion). The present value of future PFI obligations, including service charges, increased to £144.6 billion (2009-10: £131.5 billion). The increase is driven by a number of factors including an increase in new contracts and changes in future commitments in relation to existing contracts. The total interest payable on these capital commitments is expected to be £39.0 billion (2009-10: £33.4 billion).

3.84 The majority of the 706 PFI contracts reported by entities included in WGA were held by central government (including the NHS) and local government. Over the course of the 2010-11 financial year, in volume terms the number of PFI contracts within central government and NHS decreased by 25 (7 per cent), while those within local government increased by 50 (17 per cent).

Financial sector interventions

3.85 In response to the financial crisis, the Government of the day made a number of interventions in the financial sector. These included equity investments in banks which are now classified to the public sector, as well as the creation of the Special Liquidity Scheme, the Bank of England Asset Purchase Facility Fund and the Asset Protection Scheme. These all hold assets against Government liabilities, and the Government stands behind these schemes and has provided financial guarantees and indemnities. To the extent that these guarantees and indemnities are expected to be drawn upon, amounts have been included in the accounts and shown as contingent liabilities (see paragraphs 3.77- 3.80 above and Note 32). Arrangements between bodies within the WGA boundary, such as guarantees and indemnities between HM Treasury and the Bank of England, are not included, as they eliminate on consolidation in these accounts. The Government has also provided support to financial institutions in the form of loans and advances.

3.86 The Government's shareholdings in UK financial institutions acquired in 2008 and 2009 as a result of financial stability interventions, specifically the Government's shares in Royal Bank of Scotland Group plc, Lloyds Banking Group plc, Northern Rock plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, are managed by UK Financial Investments Limited (UKFI). The equity investments in the public sector banks are included as assets of the Government and are shown in Note 18. Details regarding the Government's dealings with these financial institutions are provided in Note 36 to the Accounts.

3.87 Other than the Bank of England, the financial statements of the public sector banks have not been included in WGA. Northern Rock (Asset Management) Ltd and Bradford and Bingley are proposed to be consolidated into WGA from 2013-14, as they are expected to be a permanent part of government until their mortgage books have expired and therefore form a longer-term part of the public sector. The remaining banks will continue to be held as available-for-sale financial assets and liabilities. The scale of these remaining entities would dwarf other aspects of WGA, distorting the accounts and therefore making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of these public sector banks in the long term and, in due course, they will return to the private sector. For example, Northern Rock plc was sold in January 2012.

3.88 Where the financial interventions have had a direct effect on the public sector balance sheet, such as through the purchase of equity, this is reflected in the accounts. The value of the investment in the banks as at 31 March 2011 were £56.5 billion (restated 2009-10 £61.1 billion), reflecting the value of the shares at the balance sheet dates.

Events since 31 March 2011

3.89 Since the accounts of the individual entities that form WGA were prepared there have been a number of events that could have a bearing on the balance sheet position as at 31 March 2011. These events are shown in Note 38 to the Accounts.

Comparison with National Accounts

3.90 WGA is a complement to, rather than a substitute for, the financial information the Government and other independent bodies already publish. WGA does not replace the statistics published by the independent Office for National Statistics (ONS), which follow the internationally agreed National Accounts system. The two systems of accounting have evolved independently of each other, use different international standards, and have been designed for different purposes. The National Accounts are used to assess the economic and fiscal position of the UK for policy purposes and are prepared

under an internationally-agreed framework which facilitates monthly and quarterly fiscal statistics. They follow Europe-wide guidelines on the measurement of the UK economy which enables comparison to other European governments' fiscal aggregates. WGA shows audited accounting standards-based numbers which provide insights into long-term sustainability, as well as presenting the figures in a format familiar to the commercial sector and the wider accountancy profession.

3.91 The key differences between what National Accounts and WGA cover are that WGA measures of net assets and liabilities using IFRS based standards include a full assessment of the Government's assets, including physical and illiquid financial assets, and include liabilities on future payments, such as public service pensions. WGA also discloses contingent liabilities.

3.92 Neither National Accounts nor WGA provide a complete assessment of the future fiscal position of the public sector. Both exclude future tax revenue, future assets, and liabilities that will be incurred in the future, such as future benefit and pension payments. WGA does include future liabilities from past activities and contingent liabilities, and so offers greater coverage of some future liabilities than in the National Accounts.

3.93 The ONS published an article *Comparison between Public Sector Finance measures from the National Accounts and Whole of Government Accounts* (June 2011), which explains the main conceptual differences between the National Accounts and WGA. These conceptual differences have a direct impact on the calculation of fiscal aggregates, which are sourced from the National Accounts.

3.94 Two key fiscal aggregates based on the National Accounts are public sector net debt and the current deficit. The nearest equivalents in WGA are the total net liabilities and net deficit for the year. The key differences between the 2010-11 WGA and National Accounts⁹ measures are explained below.

High level reconciliation of public sector net debt

	2010-11	2009-10
	£bn	Restated £bn
Net liabilities (WGA)	1,193	1,227
Net public service pensions liability	(960)	(1,135)
Provisions	(108)	(102)
PFI contracts	(27)	(25)
Unamortised premium or discount on gilts	(15)	(13)
Tangible and intangible fixed assets	757	765
Payables and receivables	46	9
Investments	17	11
Other	7	23
Public sector net debt (National Accounts)	910	760

⁹ As per the September 2012 ONS Public Sector Finances release, excluding financial interventions

High level reconciliation of current deficit

	2010-11	2009-10
	£bn	Restated £bn
Net deficit for the year (WGA)	94	163
Public service pensions	79	(51)
Impairment of assets	(53)	(24)
Capital grants	(18)	(16)
Depreciation of assets	(7)	(6)
Provisions	(6)	27
Net gains/losses on sale of assets	(4)	-
Military expenditure not capitalised	5	5
Other	14	12
Current deficit (National Accounts)	104	110

Differences in relation to pensions

3.95 The largest difference between the WGA measures of net liabilities and net deficit and the National Accounts based measures of public sector net debt and current deficit relate to public service pensions. WGA is prepared on an accruals basis in accordance with accounting standards. It takes into account all future pension liabilities from the service already provided by past and current public servants. Therefore, WGA net liabilities include the net public service pension liability for public sector pension schemes. The National Accounts measures recognise the cash payments and receipts associated with these pensions. The public service pension liability is therefore not included in public sector net debt. There are similar differences between the WGA net deficit and the National Accounts current deficit in relation to: interest on pension liabilities of £61 billion which is included in WGA but not National Accounts and past service charges of £126 billion, where the WGA reflects the effect of the change from RPI to CPI for the indexation of public sector pensions.

Differences in relation to assets

3.96 The other large difference between WGA and the National Accounts is in relation to non-current assets, such as property, plant and equipment, intangible fixed assets, payables and receivables, investments, and other illiquid financial assets. These are included in the WGA measure of net liabilities in accordance with IFRS, but are not included in the National Accounts based measure of public sector net debt.

3.97 While fixed assets are not included in public sector net debt, they are recognised as non-financial assets in the National Accounts. However, there were conceptual differences in the valuation of fixed assets and the measurement of impairment and depreciation between WGA and the National Accounts. The National Accounts use a Perpetual Inventory Method (PIM) to calculate net capital stock and capital consumption (depreciation), whereas WGA recognises fixed assets and depreciation in accordance with international accounting standards.

3.98 The WGA measure of net deficit includes depreciation and impairments resulting from an annual review of asset values. The National Accounts measure of current deficit includes depreciation and certain impairments based on the PIM. The only impairments that are included in the National Accounts current deficit are those impairments caused by normal obsolescence or accidental damage, whereas WGA includes all impairments, no matter what their cause.

Differences in relation to provisions

3.99 WGA measures of net liabilities and net deficit include provisions and movements in provisions, to take account of liabilities that will be paid in the future arising from events that have occurred in the past and that create a legal or constructive obligation that can be measured reliably. The National Accounts measures of public sector net debt and current deficit do not record the creation of or

movements in these but do include the expenditure resulting from provisions in the accounting period that payments are made.

Differences in relation to PFI

3.100 Differences arise in relation to PFI contracts as WGA takes into account PFI contracts that were not included in the National Accounts. The National Accounts recognition of PFI contracts is determined by judgements on the balance of risks and rewards arising from the contract, whereas the WGA recognition of a PFI contract is determined by judgments on the balance of control in accordance with IFRS. As a result of this, the value of PFI contracts included as liabilities in WGA is larger than the equivalent value in PSND. For WGA, PFI contracts are included within current liabilities, with their associated assets included in property, plant and equipment. If these PFI schemes are included in the National Accounts, the value of the PFI contract would increase public sector net debt.

Differences in relation to capital related spend

3.101 Capital grants are treated differently in WGA and the National Accounts. WGA treats capital grants as current expenditure, as the investment does not create assets directly for public sector bodies. The National Accounts treat capital grants as capital expenditure and therefore they do not form part of the current deficit.

3.102 The profit and loss on the sale of assets is not recognised in the National Accounts as current expenditure but the full proceeds received are netted off capital expenditure. WGA shows the difference between the proceeds and the net book value after taking account of revaluations as part of the net deficit.

3.103 National Accounts rules require that purchases of military weapons and the equipment needed to deliver them are scored at the point of purchase and treated as a current expense contributing to the current deficit. WGA treat this equipment as a non-current asset, which is then depreciated over its useful life.

Other differences

3.104 There are a number of other differences between the National Accounts based measures and WGA. The most significant of these relate to the treatment of unamortised premium or discount on gilts and trade payables and receivables. Public sector net debt includes gilts based on their historical cost, whereas WGA follows the accounting standard that requires discounts and premiums to be amortised.

3.105 Trade receivables and trade payables are not included within public sector net debt as this is predominantly a cash-based measure, but are part of net liabilities with WGA.

Conclusion

3.106 Producing WGA remains the most ambitious financial consolidation of the public sector being carried out by any government. As with the 2009-10 account, the 2010-11 account has been qualified. A number of improvements have been made to the 2010-11 account, and for the first time there are comparatives. We continue to work to improve the account, with a view to getting to a position where qualifications can be removed. Notwithstanding the qualifications, I believe that WGA is able to make a positive contribution to the richness and accessibility of information about the public sector finances.

Sharon White
Accounting Officer
24 October 2012

4 Statement of Accounting Officer's Responsibilities

4.1 Under section 9 of the Government Resources and Accounts Act 2000, Her Majesty's Treasury is required to prepare in respect of each financial year a set of accounts for a group of entities each of which appears to HM Treasury:

- (a) to exercise functions of a public nature, or
- (b) to be entirely or substantially funded from public money.

4.2 The account is prepared on an accruals basis and in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2010-11 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The accounts must give a true and fair view of the Whole of Government's finances.

4.3 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM, and in particular to:

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

4.4 In addition to these responsibilities, and specifically with regard to WGA, the WGA Accounting Officer is responsible for:

- drawing up WGA in accordance with the GRAA;
- ensuring that WGA complies with the FReM and generally accepted accounting practice;
- agreeing the process of producing WGA and for ensuring that relevant data are collected and accurately and appropriately processed; and
- ensuring that there is an appropriate control environment for the production of WGA.

4.5 The responsibilities of an Accounting Officer are also set out in Managing Public Money published by HM Treasury. This includes the need for efficiency, economy, effectiveness, and prudence in the administration of public resources to deliver value for money.

4.6 The WGA Accounting Officer is responsible for signing the WGA Statement on Internal Control. When signing the Statement on Internal Control, the WGA Accounting Officer places reliance on the assurances made for each individual entity by the Accounting Officer or their equivalent, as documented through the Statement of Internal Control for those bodies.

5 Statement on Internal Control

Scope of Accounting Officer's responsibility

5.1 As Accounting Officer, I am responsible for maintaining a system of internal control to support the efficient and effective production and audit of the Whole of Government Accounts for the year ended 31 March 2011 and subsequent years. The WGA is a consolidation of audited accounts. My responsibilities are for the consolidation process as well as for the preparation of the consolidated financial statements, supporting disclosures notes, and the commentary.

5.2 HM Treasury is responsible for the consolidation process and prepares the consolidated financial statements on my behalf. In November 2009, an Assurance Committee for WGA was set up, whose role includes providing me with independent advice to inform my decisions and to help me to monitor and review the consolidation processes for managing risk, control, governance and assurance.

The purpose of the system of internal control

5.3 The WGA system of internal control is designed to minimise the risks to the process of preparing and publishing the consolidated account. The accounts of individual entities consolidated within WGA are subject to their own systems of internal control.

5.4 The system is intended to manage risk to a reasonable level rather than to eliminate all risk of failure to the consolidation and preparation process. It provides reasonable, but not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process, designed to identify and prioritise the risks, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently.

5.5 The WGA system of internal control has been in place for the year ended 31 March 2011 and up to the date of approval of the account, and accords with Treasury guidance.

Capacity to manage risk

5.6 Publication of WGA is managed within HM Treasury's risk management framework, which is set out in the department's annual report and accounts. The Deputy Director for WGA is responsible on a day-to-day basis for managing risk and for ensuring that the activities necessary for the production of the accounts are properly planned, resourced and performed.

5.7 The account is prepared by a dedicated WGA team within the department. These staff are all experienced professionally qualified staff, or trainees working under direct supervision.

The risk and control framework

5.8 As Accounting Officer, I am responsible for the control framework in place to produce the consolidated account. I receive support and assurance on the management of risks in a number of ways:

- The department's audit committee, chaired by a non-executive member, reviews the department's approach to internal control and provides independent advice to the department's Accounting Officer. The committee adopts an approach that challenges the strategic risks facing the department including those associated with WGA.
- I am further supported in my responsibilities by the Treasury's Internal Audit function and an Assurance Committee which provides me with specific advice on managing WGA risk and controls.
- The external audit function for the account is provided by the Comptroller and Auditor General, supported by staff from the National Audit Office who have access to all Treasury papers as well as attend the department's audit committee and the WGA assurance committee.

5.9 I must rely on the Accounting Officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process and, in these instances, the risks can be identified and, where appropriate, are reported in paragraphs 5.19 to 5.22 below.

5.10 The key risks in the preparation of the consolidated account for the Whole of Government include:

- inaccuracies in entities' WGA returns, resulting in materially misstated balances;
- failure to provide data or delays in the submission of WGA returns; and
- mismatching and non-elimination of intra-group transaction streams and balances, resulting in materially misstated figures.

5.11 To manage the key risks to the WGA consolidation and preparation process, HM Treasury has regularly reviewed the key risks, and identified and implemented mitigating actions. HM Treasury has also implemented a control and validation framework to define the controls over the preparation of the accounts and to monitor the effectiveness and completeness of the controls in place.

Information and data handling

5.12 In preparing WGA, HM Treasury does not collect any personal data from WGA entities.

5.13 WGA data collected from WGA entities are held on HM Treasury's Combined Online Information System (COINS) database. Data is published on <http://www.data.gov.uk> as part of a scheduled release of COINS data.

Review of effectiveness

(a) Addressing significant internal control weaknesses in the WGA consolidation process

5.14 During 2010-11, HM Treasury took a number of steps to strengthen its internal controls over the consolidation process:

- it strengthened controls over data collection, through greater validation of data on input to the various data collection packs;
- improved analytical review processes to ensure the quality and robustness of final balances;
- improved documentation and processes within the team, to reflect lessons learned from preparing the 2009-10 account; and
- made improvements to data collection procedures and processes, enabling users to complete their data collection packs more easily.

5.15 These improvements are incremental and these actions will be continued into 2011-12, as further lessons are learned and short term improvement opportunities are identified. These will be predominantly focused on processes within the WGA team and on controls over data collection. HM Treasury will also develop a plan for 2012-13 and beyond, taking on board matters raised by the Comptroller and Auditor General in his audit opinion, and the wishes of the Public Accounts Committee to improve significantly the speed of the account production, whilst maintaining or improving data quality.

5.16 HM Treasury's internal audit function carried out a review of aspects of WGA during the year. They identified a number of improvements that could be made to the consolidation process, and these have either been acted on or are reflected in plans for 2011-12 and beyond. The key areas identified for improvement were: communication to improve the understanding of the purpose of WGA amongst users, the quality of counterparty data and the timeliness and quality of data provided to HM Treasury.

5.17 HM Treasury's COINS system collects financial data from WGA entities, which are used to prepare the consolidated account. The system continues to meet its objectives, but for future demands, its functionality needs to be improved. Work has commenced on replacing the existing system, the first phase of which was completed in 2012. Development of this system will support further analysis of

expenditure, which is currently constrained by its design. The new system will be available for WGA use in 2013, and it will be used to produce the 2012-13 accounts.

5.18 I am satisfied that effective remedial action is being taken to address the internal control issues identified above. However, these improvements may take several years to implement fully, particularly in relation to the elimination process, and I anticipate that these will be recurring issues for 2011-12. In part, this is because lessons are being learned after the accounts of the previous year have been completed. I have procedures in place to monitor the progress being made to tackle these weaknesses.

(b) Addressing significant internal control weaknesses in underlying accounts and WGA data

5.19 Good financial management is at the heart of effective, well run organisations, allowing them to understand exactly how much they are spending and what return or policy outcomes they are getting for their money.¹⁰ NAO have examined the financial management of central government departments for many years and consider it to be improving. Overall, they have concluded that almost all central governments have achieved a level of core competence in financial management, with central finance functions that competently capture the transactions and financial position of the organisation. They were found to have sound financial controls and their annual accounts are generally materially accurate and prepared in reasonable time. However, NAO considered that active management of cash flows and the balance sheet remained generally inadequate across Government.

5.20 The underlying accounts and WGA data submissions show that there are significant internal control weaknesses in a small number of entities that have resulted in audit qualifications of those accounts and data submissions. These weaknesses are the responsibility of the Accounting Officer (or equivalent) of those accounts and cannot be managed by the WGA Accounting Officer. The most significant of these weaknesses are:

- The Cabinet Office: Civil Superannuation accounts report the financial results of the Principal Civil Service Pension Scheme and a number of other small public sector schemes. The Comptroller and Auditor General qualified the 2010-11 accounts in two respects. The first was in relation to the regularity of benefits payments where the Cabinet Office was unable to provide sufficient assurances that payments made by the Pension Scheme were in accordance with the Scheme rules. The Auditor also reported that the scope of his opinion was limited in relation to the truth and fairness of the valuation of the pension liability because the Cabinet Office was unable to provide sufficient evidence to assure him the liability of £136 billion was a reasonable estimate based on the Scheme's membership records. The Cabinet Office is carrying out work to analyse the issues raised by the auditors and to improve future record keeping and data accessibility.
- The Ministry of Defence identified several significant internal control issues, including concerns in respect to the affordability of the defence programme and reductions in manpower. Weaknesses regarding inventory and stock management and control that were previously identified by NAO remain but improvements have been made.

The audit opinion on the 2010-11 accounts was limited in scope in relation to weaknesses in inventory control. The accounts were also qualified due to material error arising from adopting policies in relation to accounting for lease-type arrangements which did not fully comply with International Financial Reporting Standards.

- HM Revenue and Customs identified several significant internal control issues, notably the levels of error and fraud in tax credits each year, and concerns about data quality.

The 2010-11 accounts received a qualified opinion on regularity in relation to the first of these matters. The Department estimated that in 2010-11 error and fraud resulted in overpayments to which the claimants were not entitled of between £2.1 billion and £2.5 billion (2009-10: between £1.8 billion and £2.1 billion) and underpayments of between £0.2 billion and £0.3 billion (2009-10: between £0.3 billion and £0.6 billion). Further information is set out in the 2010-11 and 2011-12 accounts of HMRC.

¹⁰ HC 487 Report by the C&AG dated 3 March 2011: Progress in improving financial management in government

The Comptroller and Auditor General also disclosed an Emphasis of Matter noting that there is significant uncertainty in the estimates of accrued revenue receivable and accrued revenue payable in the Department's accounts.

- The Department for Work and Pensions sought to improve controls and processes in areas where significant internal control challenges were identified in 2009-10: the level of fraud and error in benefit expenditure; Social Fund account production; debt referrals and recovery; and resource management manual payments.

The 2010-11 accounts received a qualified opinion on regularity in relation to the first of these matters. The Department estimated in 2010-11 that error and fraud resulted in overpayments of benefits of £3.3 billion (2009-10: £3.1 billion) and underpayments of benefits of £1.3 billion (2009-10: £1.3 billion).

- The NAO were unable to provide an opinion on the 2010-11 WGA submission for Academies prepared by the Department for Education/Young People's Learning Agency for a number of key reasons: inadequate arrangements and processes to provide assurance over any of the data supplied by academies; and missing data from a significant number of academies and low data quality issues from the returns received. NAO estimate that the Academies submission also omits assets totalling £4.0 billion.
- The NAO were unable to provide an opinion on the 2010-11 WGA submission prepared by the Department of Health due to the extent of omitted data. Subsequently, HM Treasury carried out further work to resolve the substantial issues, which were satisfactory from a WGA perspective.

5.21 A small number of other WGA entities also received qualified audit opinions. They have not been disclosed here as the amounts involved were immaterial to WGA. Annex 1 includes a list of all WGA entities and indicates those which had qualified accounts.

5.22 Internal control weaknesses that led to qualifications (other than regularity) are considered for their impact on WGA and whether they may affect the true and fair view of the accounts.

(c) Assurance in making this judgement

5.23 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control for the preparation of WGA. My review of the effectiveness of the system of internal control conducted by HM Treasury is informed by the Assurance Committee, the WGA team at HM Treasury, which has responsibility for the development and maintenance of the internal control framework, the HM Treasury internal audit function, comments by the external auditors in their Management Letter and other reports, and responses made to issues raised through audit activity.

5.24 Whilst there are improvements that can be made to the system of internal control, the framework currently in place ensures that we can accurately process the data that we receive. There are material issues arising from the fact that we were unable to identify and eliminate all intra-group transactions and balances, resulting in a qualification of the Comptroller and Auditor General's Opinion, but we are taking steps to reduce the impact in future years.

Disclosure of information to auditors

5.25 As Accounting Officer, I confirm that there is no relevant audit information of which the National Audit Office is unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the National Audit Office is aware of that information.

Sharon White
Accounting Officer
24 October 2012

6 Remuneration Report

6.1 A remuneration report is required to be prepared by individual companies and WGA entities in compliance with the Companies Act 2006 and the 2010-11 Government Financial Reporting Manual (FReM). The requirement for a similarly detailed remuneration report does not apply to the Whole of Government Accounts, as the inclusion of all the details of about 1,500 entities would result in an unwieldy and lengthy document that would detract from the overall publication. This report summarises the remuneration arrangements for different public sector workforces, sets out the general Government policy, and provides links to organisations where further information on pay deals are available.

Civil service pay policy

6.2 Pay policy for civil servants below the Senior Civil Service is delegated to departments, within overall parameters set by HM Treasury. Each year, the Treasury publishes pay guidance which sets out the parameters¹¹, and it is then for departments to discuss their individual settlement with the trade unions, within those parameters. These arrangements also cover many non-departmental public bodies where staff are not technically civil servants.

Pay review bodies

6.3 For much of the public sector, pay awards are set by the Government after receiving advice from the independent Pay Review Bodies. Each year the Review Bodies take evidence from interested parties, including Government departments and trade unions, carry out their own independent research, and then formulate recommendations on the remuneration of their particular workforce. The Government then decides whether to accept, reject or stage the pay awards recommended by the Review Bodies.

6.4 The Pay Review Bodies comprise:

- NHS Pay Review Body – covering all NHS staff, excluding doctors, dentists and very senior managers;
- Doctors' and Dentists' Review Body – covering hospital doctors and dentists, public and community health doctors, ophthalmic medical practitioners, general medical practitioners, general dental practitioners, and community dental and dental public health staff;
- School Teachers' Review Body – covering school teachers in England and Wales;
- Armed Forces' Pay Review Body – covering members of the Naval, Military and Air Forces of the Crown up to and including the rank of Brigadier (one star) or equivalent;
- Prison Service Pay Review Body – covering prison staff in England, Wales and Northern Ireland and includes governors and other operational managers, principal and senior officer grades, and prison officer and support grades; and
- Senior Salaries Review Body – covering senior civil servants, members of the judiciary, and senior officers in the armed forces.

6.5 Pay, for those working in NHS Foundation Trusts and academies, is a matter for those organisations. However, in practice, the majority of these organisations choose to follow the Pay Review Body process. Further information on the Pay Review Body process is available on the website of the Office of Manpower Economics, the Secretariat to the Review Bodies: www.ome.uk.com.

¹¹ http://www.hm-treasury.gov.uk/d/civil_service_pay2012_13.pdf

The devolved administrations

6.6 Where policy is devolved to the devolved administrations, pay is also devolved. Reports may be sent to the First Ministers of the Scottish Parliament and The National Assembly for Wales, and the Presiding Officer of the Northern Ireland Assembly on pay related matters affecting the devolved bodies. However, where policy is not devolved, for example in the armed forces, pay is a matter for the UK Government. Where civil servants work for the devolved administrations, pay is a matter for these administrations. However, where civil servants work in UK departments, but are based in the devolved countries, pay is a matter for the UK Government.

Local government

6.7 Pay for local government workers is a matter for local government to determine, in the light of local circumstances. In practice, the pay and conditions for the vast majority of the local government workforce is set by the National Joint Council (NJC) for local government services. The NJC is a negotiating body comprising trade unions and employers. It sets the pay on a national pay scale, but it is for individual authorities to decide where to place their employees on that scale or whether to opt out completely. Similarly, separate NJCs negotiate pay for Fire and Rescue Service operational staff. .

Police authorities

6.8 Police staff pay is a matter for individual police authorities in England and Wales and in Scotland, although there are national forums that negotiate agreements on pay and conditions that police authorities may choose to implement. In Northern Ireland, police staff pay is a matter for the Chief Constable and the Northern Ireland Policing Board, with the approval of the Northern Ireland Department of Finance and Personnel. There are also Police Advisory Boards and the Police Negotiating Board which negotiates the hours of duty, leave, pay and allowances, pensions and other matters for police officers across the UK.

Health sector

6.9 Staff pay for those working for NHS Trusts and NHS Foundation Trusts is a matter for those individual entities. Specific details can be found in the reports of those entities. Statutory requirements are contained in the National Health Service Act 2006, and examples of best practice are provided to NHS Trusts, for example the *'Healthy NHS Board: Principles for Good Governance'* guidance. Foundation Trusts must consider the *NHS Foundation Trust Code of Governance* and guidance, such as *'Your Statutory Duties: A Reference Guide for NHS Foundation Trust'*. The main principle contained in the NHS Foundation Trust Code of Governance is that: "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality and with the skills and experience required to lead the NHS Foundation Trust successfully, but an NHS Foundation Trust should avoid paying more than is necessary for this purpose".

Public sector remuneration

6.10 Statistical details of pay in the public sector are available on the Office for National Statistics (ONS) website (www.ons.gov.uk). These statistics are drawn from pay information provided independently by each entity in accordance with ONS requirements. Details of senior civil servants and senior officials in central government departments, agencies and non-departmental public bodies earning over £150,000 a year are available on the Cabinet Office website¹².

6.11 Details of local government pay in England and Wales are available from the Local Government Association, which published 'Local Government Pay and Workforce: Facts and Figures' and an annual Local Government Earnings Survey. They are available on its website: www.local.gov.uk. An overview of English local government pay and workforce figures is published annually by the Department for

¹² <http://www.cabinetoffice.gov.uk/resource-library/non-departmental-public-bodies-high-earners-data-release>

Communities and Local Government in their report 'Local Government Financial Statistics England' available on its website: www.communities.gov.uk. Specific details of remuneration for each local authority are available in their individual accounts and on www.data.gov.uk.

6.12 Details of total public sector wages costs are provided in Note 7 to these accounts. These include staff costs and numbers for all staff employed within central government, local government, health sector, non-departmental public bodies, and public corporations in England, Wales, Northern Ireland and Scotland.

6.13 Median earnings across the public sector for the years 2010 and 2011 are shown below, based on the Local Government Association publication 'Local Government Pay and Workforce: Facts and Figures'¹³ issued in April 2011, largely sourced from the Office for National Statistics (other sources are quoted in the publication).

	Median earnings 2010 and 2011 £	Median earnings 2008 and 2009 £
Central Government Civil Service	22,850	21,560
Mainstream Local Government	18,956	18,248
Police Officers	38,570	37,130
Teachers	32,929	31,613
Nurses	26,456	24,693
Public Sector	22,902	21,379
Private Sector	20,575	20,761

6.14 The number of central government civil servants earning salaries in excess of £100,000 based on full time equivalent (FTE) earnings of employees is shown below. This included only home civil service employees in central government and excluded the Northern Ireland civil service and employees of non-departmental public bodies.

	Number of civil servants 2011	Number of civil servants 2010
Greater than £100,000	817	917
Greater than £150,000	112	133
Greater than £200,000	18	19

Source: Annual Civil Service Employment Survey

6.15 Within local government, 29,000 FTE local government staff, excluding teachers and chief officers and comprising 3 per cent of the total mainstream local government FTE, earned greater than the top of the national pay scale of £41,616 per annum¹⁴.

6.16 In response to the Government's drive for transparency, details of senior civil servants and senior officials in central government departments, agencies and non-departmental public bodies earning over £150,000 a year are available on the Cabinet Office website. These may not reflect the pay earned in 2010-11:

<http://www.cabinetoffice.gov.uk/resource-library/senior-civil-servants-high-earners-salaries>

<http://www.cabinetoffice.gov.uk/resource-library/non-departmental-public-bodies-high-earners-data-release>

¹³Extract from table 5 of 'Local Government Pay and Workforce: Facts and Figures' (<http://www.lga.gov.uk>)

¹⁴ 'Local Government Pay and Workforce: Facts and Figures' issued in April 2011 (<http://www.lga.gov.uk>)

7 Certificate and Report of the Comptroller and Auditor General

Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Whole of Government (the Accounts) for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Consolidated Statement of Revenue and Expenditure, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Taxpayers' Equity, the Consolidated Cash Flow Statement, the related notes and Annexes 1 to 4. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of a consolidated account for a group of entities each of which appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money, which presents a true and fair view of the state of affairs of the whole of government and of its net deficit, changes in taxpayers equity and cash flows for the year then ended. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Whole of Government and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HM Treasury; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword, Introduction and the Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

Basis for qualified opinion on the financial statements

Qualification arising from disagreements on the definition and application of the account boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the Accounts should present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context. HM Treasury has adopted a framework for these Accounts which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.22.1 to these Accounts, HM Treasury defines the accounting boundary for the Accounts by reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with

reference to the accounting standards.¹⁵ By applying such accounting standards, I consider that the Accounts should include Network Rail.

I also consider that HM Treasury's accounting policy has not been applied consistently in 2010-11 as a number of significant bodies¹⁶ have not been included in the Accounts, even though they are classified by Office for National Statistics as being in the public sector and which I also consider should be included in the Accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the Accounts with certainty as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view, the most significant impact could be on the Statement of Financial Position. The exclusion of the following categories of bodies could affect this Statement. To illustrate the potential impact:

- Network Rail, had gross assets of £43.3 billion and gross liabilities of £35.6 billion;
- publicly-owned banks had gross assets by £2,575.3 billion and gross liabilities of £2,446.9 billion; and
- other bodies had estimated gross assets of £36.1 billion and estimated gross liabilities of £27.8 billion.

Qualification arising from disagreement relating to the valuation of local authority infrastructure assets

HM Treasury's accounting policies state that the Accounts are prepared on an International Financial Reporting Standards (IFRS) basis, as adapted or interpreted for the public sector context.¹⁷ A number of bodies consolidated in these Accounts do not adopt the same framework under which these Accounts are prepared, the *Government Financial Reporting Manual*. These bodies fall under the following categories:

- Bodies in the local government sector follow the *Code of Practice on Local Authority Accounting in the UK* for 2010-11;
- Bodies that follow either pure IFRS or UK GAAP;
- Bodies that follow the *Charities Statement Of Recommended Practice*; and
- Bodies that follow the *NHS Manuals*.

Accounting standards require that, where the effect of such inconsistent accounting policies are material, adjustments should be made on consolidation. HM Treasury has provided an analysis of these differences and have provided evidence that there is one area where there is a material inconsistency for 2010-11. This is where infrastructure assets included in the Accounts are not valued on a consistent basis. Assets held by local government bodies are valued at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost. HM Treasury's estimate of the understatement of assets due to the differences in valuation between historic cost and depreciated replacement cost for local government assets could be at least £200 billion (Note 14.1 to the Accounts). HM Treasury has not been able to adjust for this inconsistency due to the information not being available from the local government sector at the current time.

Qualification arising from limitation in audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

Accounting standards require that balances and transactions held and made between bodies consolidated into these Accounts shall be eliminated in full. HM Treasury has a process in place to identify intra-government balances and transactions between bodies consolidated into the Accounts, and most balances and transactions have been eliminated. However, there remains material values of intra-government transactions and balances which have not been eliminated and the effect of not adjusting for these could lead to a potential overstatement of up to £22.6 billion (£17.0 billion in 2009-

¹⁵ *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

¹⁶ The significant bodies excluded are listed in Figure 20 in my Report.

¹⁷ This framework is set out in the *Government Financial Reporting Manual (FRM)*

10) in gross income and expenditure and up to £10.4 billion (£6.8 billion in 2009-10) in gross assets and liabilities.

I have reviewed the impact of this uncertainty and have assessed that the maximum uncertainty resides within the gross figures in the individual primary statements rather than on the net deficit or net liabilities. The totals reported for the net deficit and the net liabilities are subject to a maximum uncertainty of some £2.9 billion (£3.2 billion in 2009-10). This information is derived from where only one body has reported an intra-government transaction or balance or there is a mismatch on the amounts reported. There is also uncertainty about whether there are amounts which both bodies involved in a relationship have not reported, leading to further overstatement.

Qualification arising from disagreement in the accounting for 3G licences

In April 2000, the government issued licences to access the 3G telecommunications spectrum. Each licence was awarded for 20 years and the total raised was £22.5 billion. This was recognised as £22.5 billion income in 2000-01. I consider that it would be more appropriate to recognise this income in the Accounts over the life of the licences as the licence holders have the right to access the spectrum for 20 years and the government has an on-going obligation to ensure that the spectrum remains available to licence holders. The impact of this difference is that income would be £1.1 billion greater; liabilities would be £10.3 billion greater (£11.4 billion in 2009-10); and the value of the general fund would be £10.3 billion less (£11.4 billion in 2009-10).

Qualification arising from disagreement and limitation in audit scope from underlying statutory audits of bodies falling within the Accounts

The external auditors of the financial statements of a number of bodies that are consolidated into these Accounts qualified their audit opinion. Of these, two are of material significance to these Accounts. I qualified my opinion on the financial statements of the *Ministry of Defence* and *Cabinet Office: Civil Superannuation*.

- **Ministry of Defence Resource Accounts:** Firstly, the Ministry has not complied with the financial reporting framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with *International Accounting Standard 17 – Leases* as interpreted by *International Financial Reporting Interpretations Committee 4 – Determining whether an Arrangement Contains a Lease*. Consequently, the Ministry has omitted a material value of assets and liabilities from its Consolidated Statement of Financial Position as at 31 March 2010 and 31 March 2011. This has also led to a consequential misstatement of the Consolidated Statement of Revenue and Expenditure for 2009-10 and 2010-11. I am unable to quantify the impact on the financial statements because the Ministry has not maintained the records or obtained the information required to comply with the relevant accounting standards in this respect.

Secondly, the evidence available to me from the Ministry was limited due to a failure to maintain adequate accounting records, operate adequate stocktaking and asset verification procedures, and perform sufficient impairment review. Consequently, I was unable to obtain sufficient, appropriate audit evidence to support the accounting for certain inventory and non-current assets (£5.3 billion); and the valuation of a further unquantifiable value of inventory and non-current assets which may require impairment because the associated asset platforms have been taken out of service. I have also been unable to assess the accuracy, occurrence and completeness of the associated transactions in the Consolidated Statement of Revenue and Expenditure.

- **Cabinet Office: Civil Superannuation Resource Accounts:** Under legislation and the governing rules of the Principal Civil Service Pension Scheme, benefits are calculated with reference to an individual's qualifying service and their pensionable pay. The Cabinet Office was unable to provide me with evidence to support some service and salary records and therefore to validate the accuracy of some benefits awarded. The benefits awarded and

membership records held by the Scheme are used to calculate the liability for future benefits. Because of the limitation of scope on the accuracy of benefits awarded in the year to 31 March 2011 and a further limitation in the evidence provided to me to support some benefits accrued at the start of the financial year, I have limited the scope of my opinion on the pension liability, which is included in Note 27 to the Accounts.

Qualification arising from limitation in audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts

Local authority maintained schools and academies are required to be included in the Accounts. There is insufficient evidence over the completeness and valuation of assets held by these schools. There are two key areas of uncertainty:

- Firstly, local authority maintained schools' assets, which are estimated to be up to £32.5 billion for voluntary aided and foundation schools, and up to an additional £9.0 billion for voluntary controlled schools,¹⁸ are omitted from these Accounts. The Treasury has not been able to obtain the information to include these assets within the Accounts.
- Secondly, of the 470 academies open as at 31 March 2011, only 275 have been consolidated into the Accounts. Academies have a 31 August year-end and how they have prepared their returns is dependent on when they opened. For the more established academies, which have published accounts, this data is compiled from a five month pro-rata of the audited accounts for the period to 31 August 2010, together with unaudited data to reflect subsequent activity to March 2011. Where academies did not prepare accounts for the period to 31 August 2010, their return was based entirely on unaudited data. Under section 10 of the Government Resources and Accounts Act 2000, bodies that have been designated for inclusion in the WGA are required to arrange for their returns to be audited. The Treasury and the Department for Education have not arranged for the academies' returns to be audited and the review carried out by the Treasury and the Department for Education did not provide me with sufficient assurance that the data included in the Accounts is accurate and complete. I have reviewed the process for consolidating these returns but was unable to obtain any assurance over the accuracy and completeness of this data. The impact of these issues for academies is:
 - some £2.2 billion of income, £1.9 billion of expenditure, assets of £3.5 billion and liabilities of £0.3 billion included in the WGA is unaudited;
 - there is an understatement of gross assets in these Accounts estimated to be £2.6 billion arising from the omission of 195 academies; and
 - a review of returns submitted by academies estimated a further understatement of assets of approximately £1.4 billion, where insufficient value has been attributed to the assets.

I cannot determine with any reliability the total misstatements arising from these schools' issues, however, the estimates above are based on average values of school assets.

Qualified opinion on financial statements

In my opinion, except for the effects of the matters described in the 'Basis for qualified opinion' paragraphs above:

- the financial statements give a true and fair view of the state of the affairs of the Whole of Government as at 31 March 2011 and of its net deficit, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000.

¹⁸ This estimate has been obtained from a paper presented to the Financial Reporting Advisory Board in October 2011 (www.hm-treasury.gov.uk/d/frab108_11.pdf). It is also possible that this estimate includes some assets which are leased from other bodies and may not be controlled by the school, so would not require consolidating into the WGA.

Emphasis of matter – significant uncertainty

In forming my opinion on the truth and fairness of these Accounts, I have considered the adequacy of the disclosures made in areas where there is significant uncertainty in the values reported in Note 1.22.6 to these Accounts, which concerns the uncertainties inherent in estimating the likely costs of the liabilities of the Nuclear Decommissioning Authority. As explained in the Note, given the very long timescales involved and the complexity of the plants and materials being handled, a considerable degree of uncertainty remains over the value of the liability for decommissioning nuclear sites designated by the Secretary of State. Significant changes to the liability, which currently stands at £49.2 billion (£45.1 billion in 2009-10), could occur as a result of subsequent information and events which are different from the current assumptions adopted by the Authority.

Opinion on other matters

In my opinion, the information given in the Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitations arising from a lack of evidence supporting the completeness of the elimination of intra-government transactions and balances; from underlying statutory audits of bodies falling within the Accounts; and from a lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts:

- the financial statements are not in agreement with the accounting records or returns; and
- I have not received all of the information and explanations I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- returns adequate for my audit have not been received from component bodies not visited by my staff; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

My Report on pages 48 to 90 includes more details of the qualification of my opinion on the financial statements as well as other matters relating to my audit of the Accounts.

Amyas C E Morse
Comptroller and Auditor General
29 October 2012

National Audit Office
157-197 Buckingham Palace Road
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The Report of the Comptroller and Auditor General to the House of Commons

Summary

The Whole of Government Accounts

7.1 The Whole of Government Accounts (WGA) is a single set of accounts consolidating the activities of the UK government. The WGA for 2010-11 is the second such set of accounts to be published, and the first to include comparative information.

7.2 The Treasury's objectives for the WGA are that it should improve transparency, increase accountability, provide more complete data on public finances than other sources, encourage public bodies to prepare their accounts in a more comparable way, and provide complementary data that can support long-term fiscal analysis and decision making.

Scope of this report

7.3 This report covers the 2010-11 WGA:

- In **Part 1**, I explain the key figures in the 2010-11 WGA, the key changes since 2009-10, and the insight they give into the government's finances.
- **Part 2** sets out how the WGA has been used so far, and how further improvements are required to maximise the value and use of the WGA.
- In **Part 3**, I explain why I qualified my audit opinion on the 2010-11 WGA.

Key findings

7.4 The first WGA, for 2009-10, was welcomed by a number of external stakeholders and by Parliament as a potentially powerful tool to improve the management of public resources. The 2010-11 WGA builds on the first set of accounts by including comparative figures. The 2010-11 WGA can be used as a baseline for judging the success of the government's Spending Review and the reduction of the government's deficit. However, the Treasury has still to set out how, in time, it intends to use the WGA to help manage the government's financial position, and associated risks, in its role as the UK's 'Ministry of Finance'.

7.5 The WGA shows government's overall financial position and performance, and how it is affected by past decisions. Over 2010-11, the government significantly reduced its annual deficit (the difference between expenditure and revenue) from £163 billion to £94 billion, but its overall net liability (the difference between what government owes and what it owns) remained at some £1.2 trillion. The largest reduction in the annual deficit was due to government changing the measure of inflation used to set payments to members of the public sector pension schemes. This change also reduced the public sector pension liability but increases in government borrowing meant that the overall net liability remained, at £1.2 trillion, similar to that reported in the 2009-10 WGA.

7.6 The 2010-11 WGA is a true and fair account of the use of public resources, but material problems remain and the account is still qualified. My audit opinion on the 2010-11 WGA is similar to my opinion on the 2009-10 WGA but includes an additional qualification over the completeness and valuation of schools' assets within the WGA. My audit again revealed significant issues with the quality and consistency of the data included in the WGA, and some bodies, such as Network Rail, are still excluded from the WGA even though accounting standards clearly require their inclusion. However, apart from the qualification issues, the 2010-11 WGA does comply with accounting standards and does provide the reader with a useful overview of the UK government's financial position.

7.7 Despite the limited opportunities to make significant changes, the 2010-11 WGA includes improvements over the 2009-10 accounts. When the first WGA covering 2009-10 was published, work on 2010-11 WGA was well underway so there was little opportunity for the Treasury to implement improvements for 2010-11. Despite this, the 2010-11 accounts were improved by adding comparative data, changing accounting standards used by local government to be more consistent with central government, and they include more bodies, such as the Bank of England.

7.8 For the WGA to be used more, it needs to be produced faster. The 2010-11 WGA was completed some 19 months after the end of the financial year to which it relates. To try and mitigate the delay, the Treasury published an unaudited summary in July 2012 but my audit has since found material error in the unaudited net deficit figure.

7.9 The lack of detail within some parts of the WGA inhibits its usefulness but the underlying data is not yet good enough to allow improvements to be made. For example, the 2010-11 WGA does not break-down government spending by function, and it does not show how spending is distributed across regions. The Treasury is not yet able to produce more detailed disclosures because it does not collect data at a sufficiently detailed level, as the underlying data is not good enough.

7.10 The Treasury has overall responsibility for improving the WGA but the individual bodies included in the WGA are responsible for submitting good quality and timely data to the Treasury. The Treasury has not clearly set out the importance of the WGA and consequently government bodies did not always prioritise their WGA submissions. During my audit, I found significant issues with the data prepared by government bodies, particularly in the health and education sectors. This includes instances where transactions between government bodies were not fully understood by the individual bodies.

Conclusion

7.11 I continue to regard the WGA as a key means through which Parliament and other stakeholders might gain greater insight into the wide range of activities that the government undertakes, scrutinise public finances and hold the government to account. In time, I hope it will provide Treasury with the means to identify key risks to the government's financial position and, with others, act to mitigate these risks. But, although the Treasury made improvements to the 2010-11 WGA, more needs to happen before it reaches this potential. To meet its objectives for the WGA, the Treasury must fix the problems that lead to the qualification of my audit opinion and it must also start to make real use of the WGA.

Recommendations

7.12 Although responsibility for the underlying transactions lies with the various bodies included in the WGA, my recommendations are all aimed at the Treasury, because it has ultimate responsibility for preparing the WGA. The Treasury should:

- a **Set out how it will use the WGA to manage the government's finances.** It is still early days for the WGA but the Treasury should be more ambitious in its objectives for the WGA. The current objectives are all very narrowly set and are focussed on delivering a set of accounts in compliance with accounting standards. The Treasury continues to make progress on its objectives for the WGA, but must now take action to use the WGA for long term fiscal analysis and decision making.
- b **Do more to remove the qualifications.** The WGA cannot fully meet its objectives until it receives an unqualified audit opinion.
- c **Add additional disclosures to the WGA.** As I have recommended previously, the WGA could be improved by including information about how government spending is distributed amongst its various activities.
- d **Ensure all government bodies take their WGA responsibilities seriously and raise the profile of the WGA across government.** The Treasury should strengthen its guidance to bodies to make

clear that their responsibility for financial reporting also extends to the WGA.

- e **Improve the production process so that the WGA can be produced faster and to a higher standard.** The Treasury should provide timely feedback to bodies that submitted poor quality data and consider the introduction of appropriate sanctions for significant problems in quality or timely submission. For example, it should publish details of bodies which failed to produce adequate WGA data. The Treasury should also consider the continued merit of publishing unaudited data.

Part One:

The Whole of Government Accounts

7.13 The Whole of Government Accounts (WGA) is a single set of audited accounts consolidating the financial information of the UK government. The WGA sets out what the government owns (assets), owes (liabilities), receives (revenue) and spends (expenditure). The WGA is prepared using accounting standards, specifically International Financial Reporting Standards (IFRS) adapted for use by the public sector. IFRS is an accounting framework used by much of the private sector.

7.14 The Treasury compiles the WGA and has overall responsibility for ensuring it provides a 'true and fair' representation of the financial position and performance of the UK government. While the Treasury is not responsible for the individual transactions underpinning the accounts consolidated into the WGA, it is jointly responsible, along with the bodies included in the WGA, for ensuring that data collection, financial management and reporting are robust.

7.15 The Treasury's objectives for the WGA are that it should:

- improve **transparency** by providing more public data using standard accounting conventions to enable a wider range of users to interpret them;
- increase **accountability** and confidence in the data by publishing accounts that have been audited by the National Audit Office;
- provide more **complete** data for the public sector than other sources, such as the *National Accounts* prepared by the Office for National Statistics;
- encourage public bodies to prepare their accounts consistently, so data are **comparable**; and
- provide **complementary** and complete information on the government's capital and long-term financial position, income, spending and cash flow to support long-term fiscal analysis and decision making.

7.16 The Treasury estimates that the 2010-11 WGA includes around 1,500 bodies.¹⁹ To be included in the WGA, a body must do the work of the UK government, be accountable to, or be otherwise controlled by government. This definition includes central and local government, public corporations such as the Royal Mail but not independent public sector organisations such as Parliament, the Crown Estate or the NAO. The Treasury used statistical, rather than accounting, standards to determine which bodies should be included in the WGA, and this departure from accounting standards is one of the reasons I qualified my opinion on the WGA (Part 3).

The financial position of the UK government

7.17 Figure 1 shows the key elements within the 2010-11 WGA and the following paragraphs explain in more detail:

- the net liability (Figure 2, paragraphs 7.18 to 7.21);

¹⁹ The 2010-11 WGA includes information from 1,403 individual accounts which are listed in Annex 1 of the WGA. Some bodies publish more than one set of accounts, and some of the accounts already consolidate more than one separate body.

- the difference between the net liability in the WGA and Public Sector Net Debt (Figure 3, paragraphs 7.22 to 7.23); and
- the annual deficit (Figure 4, paragraphs 7.24 to 7.26).

Figure 1

Key elements of the Whole of Government Accounts 2010-11

			2010-11 (£bn)	2009-10 restated (£bn)
Assets	Description Resources controlled by government from which future benefits can be generated	Examples Offices, student loans, the national road network, military equipment	1,227.7	1,249.5
Liabilities	Obligations on government arising from past transactions or events	Deficit on the public sector pension schemes, gilt-edged stock, future cost of decommissioning existing nuclear facilities	(2,421.1)	(2,477.4)
Net liability	The difference between what the government owned and what it owed at the end of the financial year		(1,193.4)	(1,227.9)
Revenue	Income received from government's activities	Taxation, rental from local government housing, funding received from the EU	614.0	583.4
Expenditure	The cost of running government and providing public services	Benefit payments, staff costs, grants, depreciation, contributions to the EU	(625.2)	(667.5)
Net financing cost	The cost of funding government's activities	Investment revenue, interest paid on gilts, interest on pension scheme liabilities	(83.2)	(78.6)
Net deficit for the year	The shortfall between revenue and expenses during the year		(94.4)	(162.7)

NOTE

1. The figures for 2009-10 have been restated to make them comparable with the 2010-11 WGA. This had a modest impact on the headline figures, for example the net deficit for the year is reduced by £1.8 billion, and the net liability increased by £15.3 billion.

Source: National Audit Office analysis of WGA 2010-11

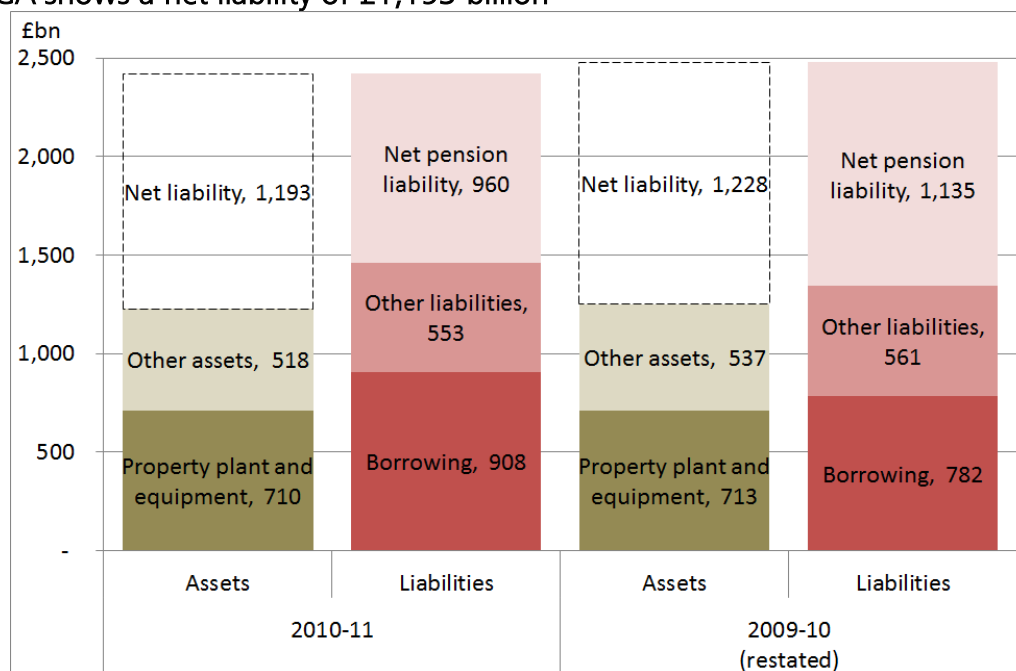
The net liability

7.18 The net position remains a net liability of £1.2 trillion (Figure 2), some 81 per cent of 2010-11 GDP.²⁰ Over time, the government expects to reduce public sector net debt as reported in the National Accounts, and this may also reduce the net liability reported in the WGA. The 2010-11 WGA provides a baseline against which progress can eventually be judged.

²⁰ 2010-11 GDP of £1,477 billion as estimated by the ONS as at 24 May 2012. The restated 2009-10 net liability was 87 per cent of 2009-10 GDP on the same basis.

Figure 2

The WGA shows a net liability of £1,193 billion



Source: National Audit Office analysis of WGA Statement of Financial Position

7.19 The WGA shows that government owns £1,228 billion assets. This includes physical assets such as buildings and infrastructure (£710 billion), cash (£23 billion), shares and loans (including those arising from interventions in the financial sector, and student loans) and other financial assets (£223 billion) such as those arising from market operations to meet government’s cash requirements.

7.20 Between 31 March 2010 and 31 March 2011, the total value of assets decreased by 2 per cent (£22 billion). This net reduction includes a £5 billion reduction in market value of the government’s shares in RBS and Lloyds but is mainly due to a £24 billion reduction in other financial assets, such as those created by central government’s cash management operations.

7.21 The WGA shows government liabilities of £2,421 billion as at 31 March 2011. This includes £908 billion of central government borrowing (paragraphs 7.47 to 7.54), a £960 billion liability for public service pensions (paragraphs 7.55 to 7.61), and £108 billion of provisions for likely future expenses due to past events (paragraph 7.62). This does not include contingent liabilities or future obligations such as the state pension scheme (paragraph 7.58) which accounting standards require to be excluded.

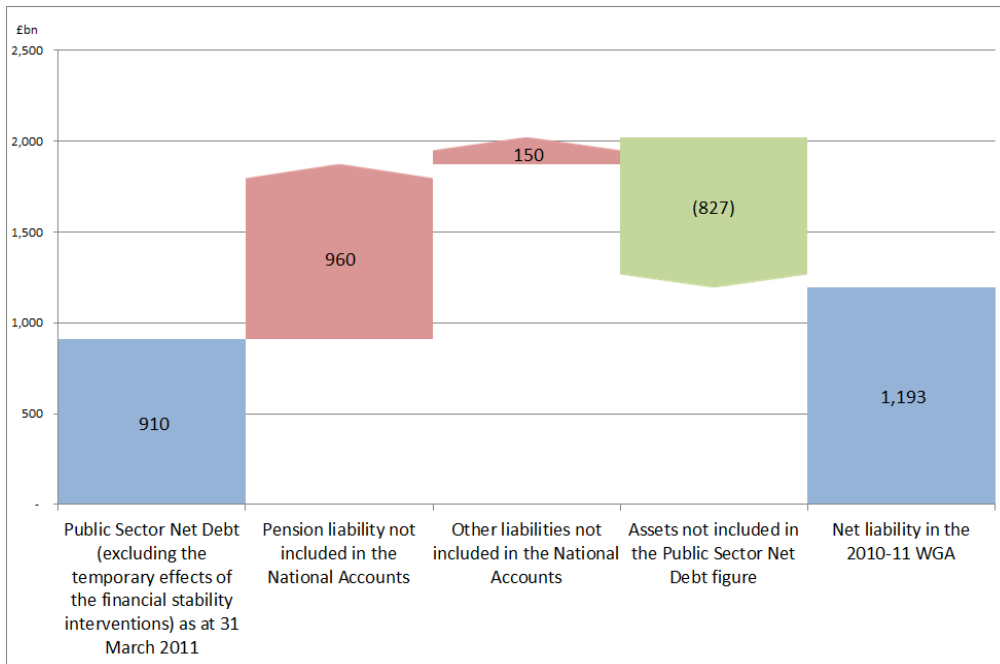
7.22 The WGA reports a higher figure for public sector net debt than the Public Sector Finances Statistical Bulletin.²¹ The September 2012 Bulletin reported a figure of £910 billion for Public Sector Net Debt²² as at 31 March 2011 which is broadly comparable to the £1,193 billion net liability in the 2010-11 WGA (Figure 3).

²¹ Latest available estimate of March 2011 PSND is available in the September 2012 Bulletin, www.ons.gov.uk/ons/rel/psa/public-sector-finances/sept-2012/stb---september-2012.html

²² The figure quoted is the version of Public Sector Net Debt which excludes the temporary effects of the financial stability interventions. This is most comparable to the 2010-11 WGA because the banks controlled by the state have not been consolidated into the WGA by the Treasury, and the majority of the support schemes are not on the Statement of Financial Position in the WGA but appear as contingent liabilities.

Figure 3

The WGA shows a higher measure of net liability than Public Sector Net Debt



NOTES

1. The £150 billion includes £108 billion provisions, £27 billion PFI contracts treated off balance sheet in the National Accounts, and £15 billion other differences in the valuation of gilts
2. The £827 billion includes assets which are reported in the National Accounts but not included in the definition of Public Sector Net Debt. The largest component is £757 billion property plant and equipment which are not included in Public Sector Net Debt because they are illiquid.

Source: HM Treasury

7.23 The main difference is that some assets and liabilities in the WGA are not included in the definition of Public Sector Net Debt. Both measures include liquid assets and liabilities, but the WGA also includes additional liabilities such as the public sector pension liability and provisions for future expenditure and offsets illiquid assets such as property plant and equipment.

The annual deficit

7.24 The WGA also includes information about the annual deficit, the shortfall between what the government spent and the revenue it received (Figure 4). The annual deficit is the equivalent of a company making a loss in a single year. The WGA reports an annual deficit of £94 billion for 2010-11, the deficit for the same period reported in the National Accounts was £104 billion.

Figure 4

Government expenditure continues to exceed revenue



NOTE

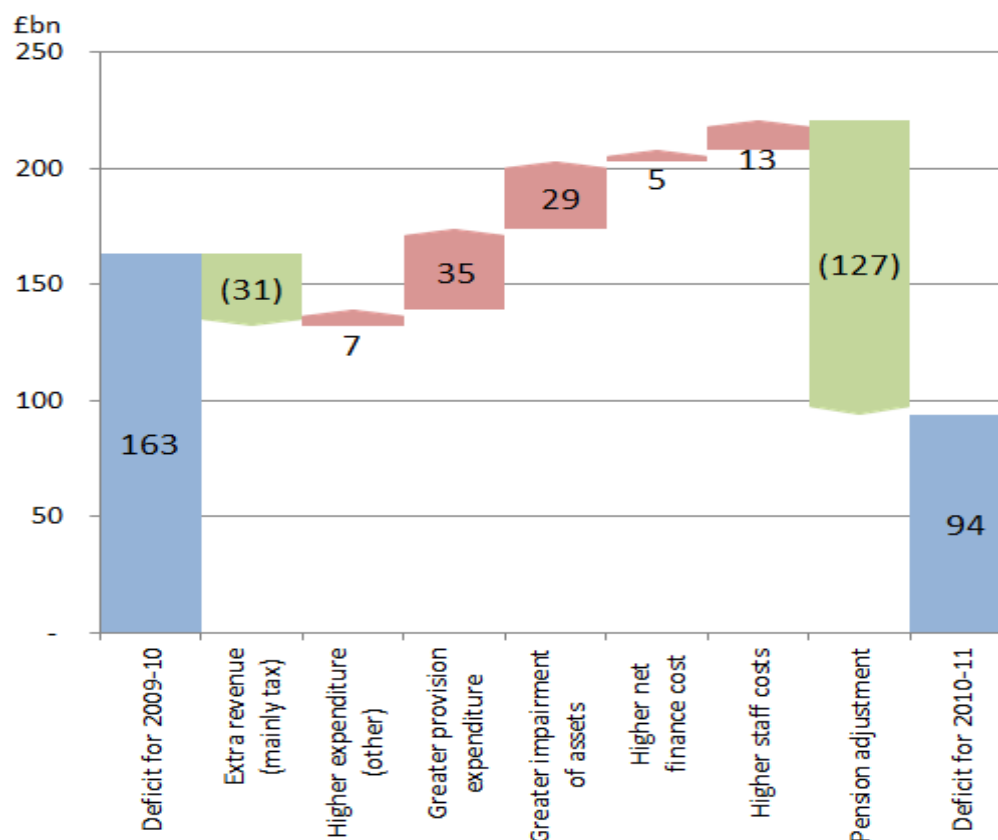
1. The category 'Other' includes costs of grants and subsidies, depreciation and impairment, provision expense and other expenditure. The 2010-11 figure is net of a £126 billion gain due to the pension change (paragraph 7.55) which has been included in the WGA as negative expenditure.

Source: NAO analysis of 2010-11 WGA

7.25 Over 2010-11, the annual deficit fell by £68 billion (42 per cent). Revenue was £31 billion greater in 2010-11, mainly due to increased tax receipts but the largest reduction in the deficit is due to the change to public sector pensions which decreased the deficit by £127 billion (Figure 5).

Figure 5

The deficit of £94 billion reported in the 2010-11 WGA is lower than 2009-10, largely due to the change to public sector pension liabilities



NOTES

1. 'Higher expenditure (other)' includes the net increase in expenditure in: grants and subsidies (+£2.2 billion), benefits and social security (+£6.9 billion), revaluation of financial assets and liabilities (+£2.4 billion), loss on disposal of assets (+£2.4 billion), reduced other expenditure (-£0.5 billion) and reduced purchases of goods and services (-£1.7 billion).
2. The change to public sector pensions (paragraph 7.55) means the deficit is reduced by £127 billion because there was a gain of £126 billion in 2010-11 and in 2009-10, there was a £1 billion cost due to previous changes in the pension rules.
3. The pension adjustment is partially offset by £10.2 billion additional pension expenditure elsewhere in the Accounts: staff costs increased by £12.3 billion due to changes in the pension scheme discount factor, and finance costs were decreased by £2.1 billion due to higher returns from assets in the funded pension schemes.

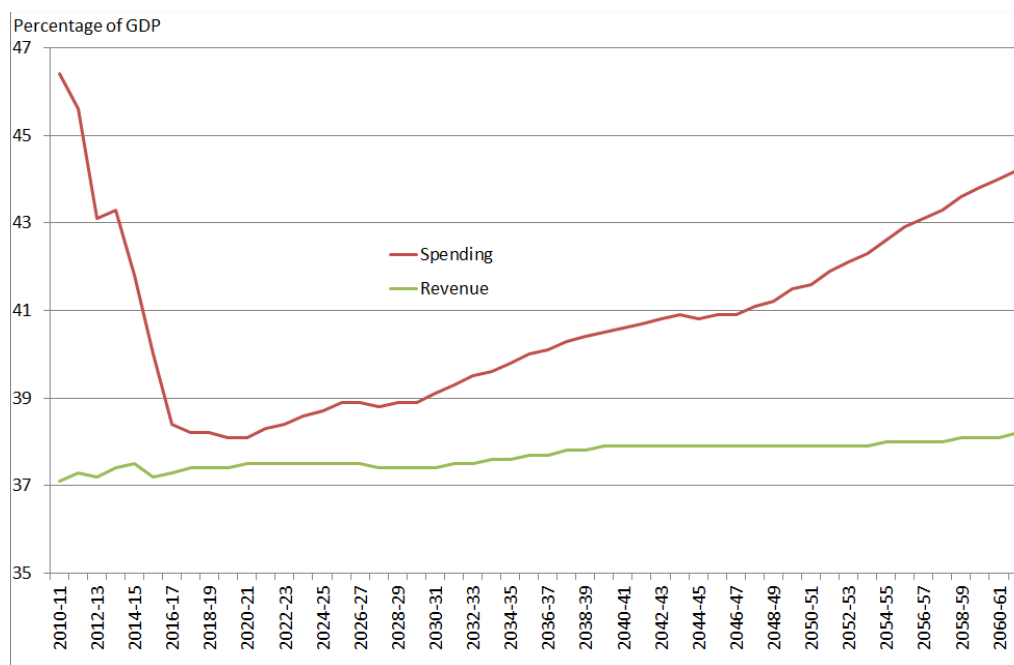
Source: National Audit Office analysis of the WGA.

7.26 The Office for Budget Responsibility (OBR) project that the deficit reported in the National Accounts will continue to fall in the short term, but will later increase (Figure 6). Its Fiscal Sustainability Report²³ stated that 'on current policy we would expect the budget deficit to widen sufficiently over the long-term to put public sector net debt on a continuously rising trajectory as a share of national income. This is clearly unsustainable'. One reason is the requirement to spend more on health as the population ages. The OBR estimated that to return Public Sector Net Debt to the pre-crisis level of 40 per cent of GDP, future governments would need to either reduce spending or increase taxation by around 1 per cent of GDP a year. There are various ways in which the OBR believes this could be achieved, for example as an immediate reduction, or through more gradual reductions over time.

²³ Office for Budget Responsibility, *Fiscal Sustainability Report*, 12 July 2012

Figure 6

OBR projections of future government spending show the deficit is not controlled over the long-term



NOTE

1. The projections of the deficit in the chart are calculated on the basis of the National Accounts rather than the WGA
Source: Office for Budget Responsibility, *Fiscal Sustainability Report*, July 2012

Using the WGA to understand government finances

7.27 As well as setting out the UK government’s financial position, the WGA also provides material that allows the reader to gain greater insight into how, in financial terms, the government manages taxpayer’s resources and the key judgements it exercises in accounting for its decisions.

7.28 For example, the 2010-11 WGA is the first year where comparative data is included. In time, this may allow the reader to see trends in the use of public resources. The 2010-11 figures reflect the first year of the implementation of the current Spending Review and, in accounting terms, the WGA provides a baseline against which success can be measured.

7.29 The following sections highlight examples where the WGA brings insight into key financial decisions and the management of financial risk:

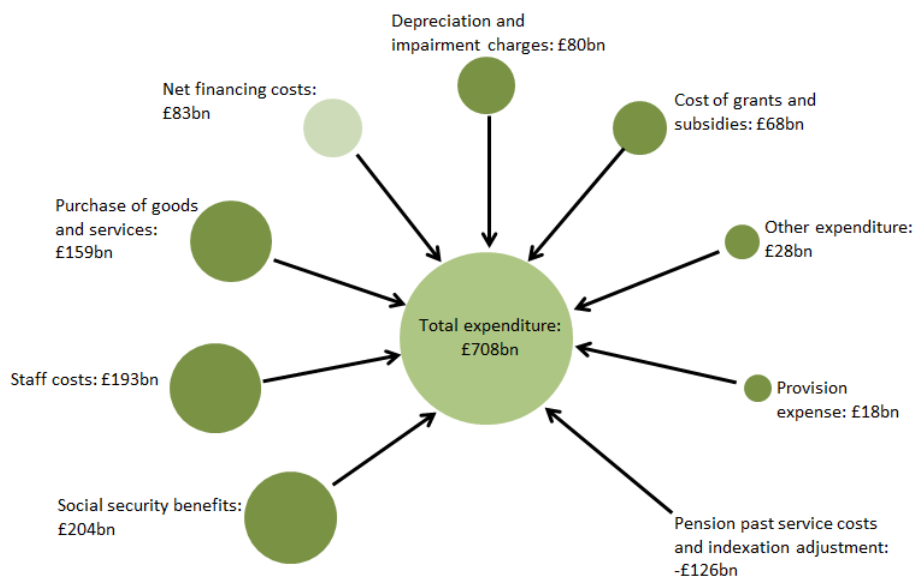
- **The scale of government expenditure** and the emerging impact of payroll and pension policy initiatives (paragraphs 7.30 to 7.31).
- **Government’s management of its assets**, including amounts owed from unpaid taxation (paragraphs 7.32 to 7.34).
- **What government is obligated to pay**, including central government borrowing (paragraphs 7.45 to 7.54).
- **Managing the cost of long term commitments** such as public sector pensions and provisions for other liabilities (paragraphs 7.55 to 7.62).

What government spends

7.30 The WGA does not include detailed information on the government's spending. The categories 'Purchase of goods and services' and 'Other expenditure' together accounted for £187 billion (30 per cent) of 2010-11 expenditure. These include essentially all day-to-day activities of government, but the WGA does not give sufficient detail on what is included in these categories to allow analysis of government spending by activity. Figure 7 shows the level of granularity provided within the WGA but, for example, it is not possible to determine from the WGA what the government spend on accommodation or consultancy.

Figure 7

Expenditure totalled £708 billion in 2010-11



NOTE

1. Figures do not add up to exactly £708 billion due to rounding.

Source: NAO analysis of WGA, statement of income and expenditure

7.31 Total expenditure decreased by 5 per cent, from £746 billion in 2009-10 to £708 billion in 2010-11. The biggest reduction arose from a £126 billion gain due to government's decision to reduce the future cost of public sector pensions (paragraph 7.55). The reduction in expenditure due to the pension change was partially offset by increases in finance costs (£5 billion), depreciation and impairment charges (£29 billion), staff costs (£13 billion, Box 1) and social security benefits (£7 billion).

Box 1: Early departure programmes are likely to increase staff costs in the short term

Staff costs include salaries and wages, the costs of pensions and other employee benefits. Note 7.1 to the WGA shows an increase in staff costs of 7 per cent, from £179.7 billion in 2009-10 to £193.1 billion in 2010-11. This increase was largely due to the way current service pension costs were calculated. Over the same period, the average number of full time equivalent staff employed by government (including those working on capital projects) decreased from 4.9 million to 4.7 million, with the greatest decrease being in local government.

The 2010 Spending Review required government departments to make significant administrative cost savings as part of reducing the deficit. Staff costs typically make up around half of administration budgets and almost all departments are planning staff cost reductions, largely through reducing the number of employees. The Cabinet Office estimates that the UK civil service will reduce by around 114,000 full-time equivalent staff (23 per cent) between 2010 and 2015.

Future WGAs are likely to show decreased staff numbers as a result of early departure programmes. As there is a cost associated with early departures, staff costs are likely to increase before they reduce. The NAO has calculated that government departments in England paid an estimated £600 million to release the 17,800 employees who left early under the revised Civil Service Compensation Scheme during the 12 months from its inception on 22 December 2010 and that the time by which the salary and other cost savings pay off the initial costs of these 17,800 departures will be some 11-15 months.

NOTES

1. The UK civil service serves three governments, the national government in Westminster and the governments of Scotland and Wales; the Northern Ireland civil service has been a separate organisation since 1921.
2. These figures include early departures, from government departments and other bodies in England, of staff who are members of the Principal Civil Service Pension Scheme. They do not include early departures from the devolved administrations or from local authorities, the NHS, the police or the armed forces.

Source: Report by the Comptroller and Auditor General, *Cabinet Office: Managing early departures in central government*, HC 1795 Session 2010–2012, 15 March 2012

What government owns

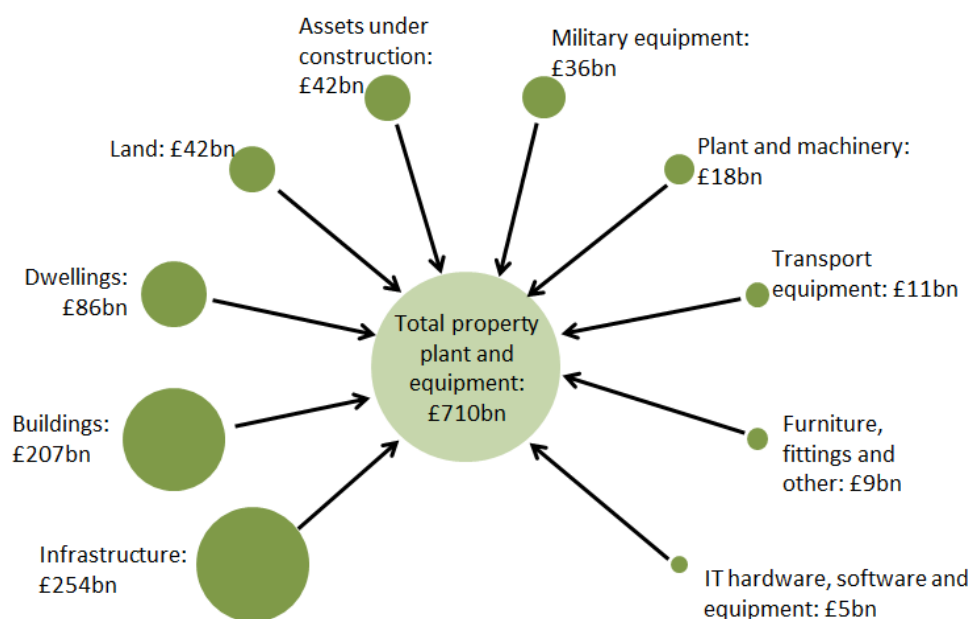
7.32 Where government spending creates resources whose value is to be realised after 31 March 2011, an asset is shown on the Statement of Financial Position.

7.33 The WGA shows total assets of £1.2 trillion of which the largest category is £710 billion of tangible items such as property, plant and equipment (Figure 8). Changes to the way local authority housing was valued reduced the value of government's assets. In 2010-11 the Department for Communities and Local Government changed the way local authorities calculate the value of local authority housing.²⁴ The new approach reflects changes in the social housing market between 2005 and 2010 and the additional risk and liability that public sector landlords undertake when compared with the private sector. This reduced the value of 'Dwellings' by £27 billion (to £86 billion), but increases to other categories meant the total reduction in property plant and equipment was just £3 billion over 2010-11.

²⁴ www.communities.gov.uk/documents/housing/pdf/1825886.pdf Chapter 3.4 and Appendix 4

Figure 8

Property plant and equipment was valued at £710 billion in the 2010-11 WGA



Source: National Audit Office analysis of Note 14 to the WGA

How government manages what it is owed

7.34 Amounts owed to government are recorded as assets. Like any business, government must ensure that these amounts are collected, or make a provision for amounts that are potentially irrecoverable. Note 17 to the WGA shows £165 billion receivable by government of which £19 billion was regarded as potentially irrecoverable as at 31 March 2011.

7.35 The government created the Fraud, Error and Debt Taskforce to address its concern over the level of losses due to uncollected amounts. The Taskforce identified total losses to central government of between £7 billion and £8 billion in 2010-11, consisting of the total debt that government had to write off plus the cost of interest on debts owed to government. It also estimated that 95 per cent of the debt owed to government related to uncollected tax, overpaid benefits (including tax credits) and unpaid fines.²⁵ In response to the Taskforce's findings, the government announced that it would introduce legislation to allow departments to share data.²⁶

7.36 Tax is the largest revenue source for the government but there will always be a period between revenue being earned and cash being collected. Tax revenue is estimated from the expected level of taxable activity, and in 2010-11 the WGA shows £85.8 billion future taxation was accrued (Note 17 to the WGA).²⁷ The period allowed by law for taxpayers to submit a tax return means this accrued revenue was not due to be paid by the taxpayer before 31 March 2011.

7.37 Note 17 to the WGA also shows a total of £27.6 billion of unpaid taxation owed to the government as at 31 March 2011, of which £24.9 billion was owed to HMRC. The £24.9 billion consists of:

- Amounts which were 'overdue' for payment. This amount is known as 'tax debt' and totalled £15 billion as at 31 March 2011. It is this amount which HMRC must actively seek to recover, or write-off.

²⁵ HM Government, *Tackling Debt Owed to Central Government: An interim report of the Fraud, Error and Debt Taskforce*, February 2012

²⁶ www.cabinetoffice.gov.uk/news/tackling-debt-owed-government-speech-francis-maude, 15 October 2012

²⁷ As disclosed in Note 1.22.4 to the WGA, accrued revenue receivable and accrued revenue payable for tax at 31 March 2011 are subject to maximum likely uncertainty of £4 billion in either direction.

- Some £9.9 billion of other debt including cases where, as at 31 March 2011, the amount owed had been established but deadline for payment had not passed.

7.38 Figure 9 shows how HMRC managed tax debt in 2010-11. HMRC collected £33 billion of the £63 billion of tax debt it managed during 2010-11 and wrote-off £5.5 billion:

- £4.7 billion was written off when, in HMRC's assessment, there was no practical way to pursue the liability. For example, because the taxpayer could not be traced or had gone bankrupt; and
- £0.8 billion was 'remitted', meaning HMRC judged that it could not recover the debts cost-effectively.

7.39 The figures for uncollected tax do not include any estimate of the tax gap. The tax gap is the difference between the hypothetical amount of tax due, based on data on economic activity, and the amount that government expects to collect. This theoretical asset to the government is the additional amount of tax that would be due if every individual and business complied exactly with tax law as interpreted by HMRC.²⁸

7.40 Government estimates the tax gap for individual tax streams, although the robustness of each estimate varies depending on the type of tax and the frequency with which it is updated.²⁹ The most recent estimate of the tax gap relates to 2010-11 and shows a total tax gap of £32 billion. This estimate only includes taxes administered by HMRC, for example it does not include any estimate of the level of evasion of business rates.

Figure 9

The collection of debt from tax in 2010-11

	2010-11 restated (£bn)
Tax debt as at 1 April 2010	17.9
Tax debt becoming due in 2010-11	<u>45.1</u>
	63.0
Amounts collected	(33.3)
Amounts written off	(4.7)
Amounts remitted ¹	(0.8)
Amendments, cancellations and other adjustments	<u>(9.2)</u>
Tax debt as at 31 March 2011	15.0

NOTES

1. Tax debt written off where HMRC judged that it could not recover the debt cost-effectively. The figure was restated in HMRC's 2011-12 accounts to remove amounts related to the remission of tax credits.
2. The tax debt balance is included in the receivables balance shown in the Department's Trust Statement account. The receivables balance as at 31 March 2011 was £24.9 billion.
3. "Tax revenue losses" equal to the amounts written off are shown in Note 10 to the WGA

Source: Report by the Comptroller and Auditor General on HM Revenue and Customs 2011-12 Accounts, June 2012

²⁸ The Financial Reporting Manual (FRM) defines the tax gap as 'the difference between the hypothetical amount of revenues due, based on data on economic activity, and revenues receivable'. Revenues receivable 'include both the tax yield from compliant taxpayers and estimates of amounts due from non-compliant, but known, taxpayers'. The FRM requires the exclusion of the tax gap from financial statements.

²⁹ HM Revenue and Customs, *Measuring Tax Gaps 2012*, 18 October 2012

7.41 HMRC is also owed amounts resulting from overpayment of tax credits. At the end of March 2011, the value of personal tax credit debt was £4.7 billion and HMRC made a provision of £3 billion in case of such debt being irrecoverable. HMRC estimated that error and fraud leading to overpayment of tax credits affected between 7.5 and 8.8 per cent of new awards in 2010-11 and cost the taxpayer up to £2.46 billion. HMRC did not meet its target to 'reduce personal tax credit losses due to error and fraud to no more than 5 per cent of the value of finalised entitlement by March 2011' and is investigating why some kinds of error and fraud have increased unexpectedly.

Heritage assets

7.42 Not everything owned by the government is recorded in the WGA, for example, the WGA does not include all information on heritage assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Government entities hold a significant number of these assets but often do not include their value in their accounts, as allowed by accounting standards.³⁰ For example, in 2010-11, the National Gallery disclosed in its accounts that it owned 2,314 paintings, of which just 26 items (1 per cent, worth some £133 million) were valued in their accounts.³¹

7.43 Accounting standards also allow heritage assets to be valued at either cost or at their current market value. Where items were obtained a number of years ago, the cost may be significantly lower than the current value of the assets.

7.44 In 2010-11 new accounting standards³² encouraged holders of heritage assets to value them and to disclose information about assets which had not been valued. However, the majority of government entities did not bring any additional heritage assets into their accounts due to the cost and the inherent difficulty of valuation. While the WGA contains all those heritage assets which have been included in the underlying accounts, the Treasury added an exemption to the accounting framework applicable to the WGA allowing them to exclude any disclosure of heritage assets.³³

Government's obligations

7.45 On the other side of the balance sheet are the amounts that government owes. The WGA shows liabilities of £2.4 trillion, including government borrowing (paragraphs 7.46 to 7.54), the public sector pension liability (paragraph 7.55 to 7.61) and provisions (paragraph 7.62). The WGA also shows £427 billion of contingent liabilities which mainly relate to the financial stability interventions and were the subject of my Report on HM Treasury's 2010-11 Accounts.³⁴

7.46 The WGA does not include every possible obligation on government. The 2010-11 WGA shows the position as at 31 March 2011, so liabilities which are incurred or expected to be incurred through activity after that date are properly excluded. Where liabilities depend on future events, it may not be possible to value them with sufficient accuracy to include them in the WGA.

Government borrowing

7.47 The second largest category of liabilities shown in the WGA is government borrowing. Note 24 to the WGA shows £908 billion consisting of gilt-edged securities (£746 billion of debt issued to the market, Box 2), Treasury bills (£64 billion short-term financing) and National Savings & Investments products (£99 billion of savings and investment products, primarily bonds, offered to the public).

7.48 The £908 billion borrowing figure is the total amount borrowed by central government. Other liabilities shown in the WGA were also incurred to fund the activities of government as a whole. For example, in addition to the £908 billion, borrowings by local authorities totalled £32 billion (including £1.5 billion held in overdrawn bank accounts, see Note 23 to the WGA), and cash management

³⁰ *FRS 30: Heritage Asset* states that where, exceptionally, it is not practicable to obtain a valuation of heritage assets acquired by donation, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations of heritage assets.

³¹ National Gallery Accounts 2010-11, www.nationalgallery.org.uk/content/ConMediaFile/17899

³² *FRS 30: Heritage Assets*.

³³ Chapter 14 of the FReM allows the Treasury to exclude the heritage asset disclosures from the WGA.

³⁴ www.nao.org.uk/publications/1012/hmt_accounts_2010-2011.aspx

activities incurred some £14 billion of liabilities managed through the Exchange Equalisation Account and the Debt Management Office (Note 26.1 to the WGA).

7.49 Central government borrowing increased by £126 billion (16 per cent) in 2010-11. This increase was mainly additional gilts issued to fund cash payments that could not be met from taxation. Because more gilts had been issued, the cost of borrowing (the cost of paying interest on the gilts issued) increased by £5 billion to £36 billion (Note 13 to the WGA), but as a percentage of central government borrowing, the annual cost remained constant, at some 3.9 per cent. The yield³⁵ on UK gilts is currently low by historical standards.

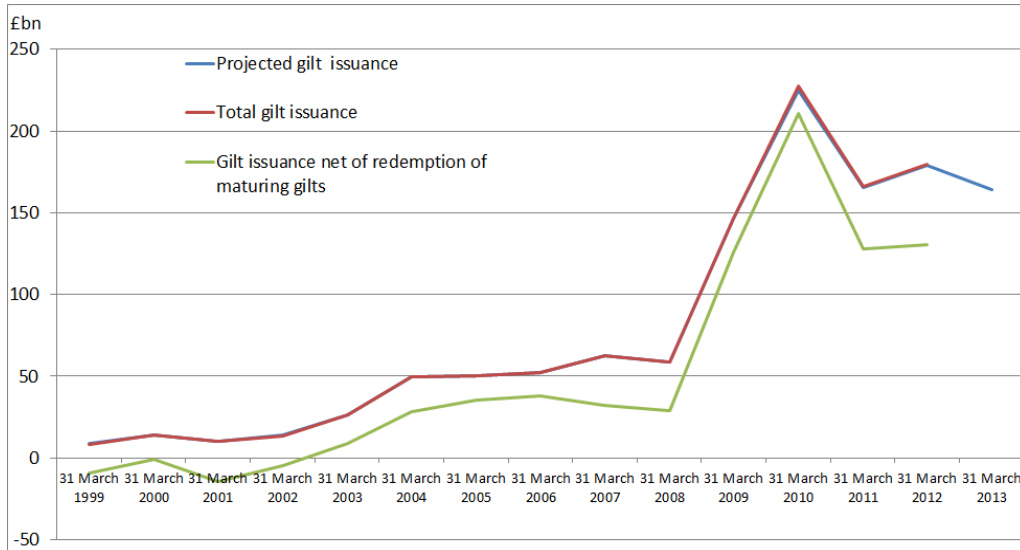
7.50 As at 31 March 2011, there were some £1,059 billion of gilts outstanding but the WGA shows a smaller figure of £746 billion (Figure 10). The WGA is not intended to include as liabilities gilts held as assets by entities in the WGA, such as the Bank of England Asset Purchase Facility Fund as part of Quantitative Easing (paragraphs 7.53 to 7.54).

7.51 Some gilts held by WGA entities were not eliminated from the WGA. Funded pension schemes, such as those managed by local authorities and the Royal Mail (Box 3), hold gilts as assets as part of their investment policies and these are not eliminated when compiling the WGA. The Treasury believe that not eliminating gilts held by pension schemes gives a better reflection of the future cost of pensions because the gilts are being used to fund the pension liability. Eliminating the gilts would have no net impact on the net liability as the reduction in 'borrowing' would be offset by an increase in the public sector pension liability.

³⁵ The yield is the annualised return that an investor would make from holding a gilt to maturity. Because investors can choose to buy existing gilts instead of new gilts, the yield is a measure of the interest rate that government would need to pay on any new gilt issuance.

Box 2: Gilts

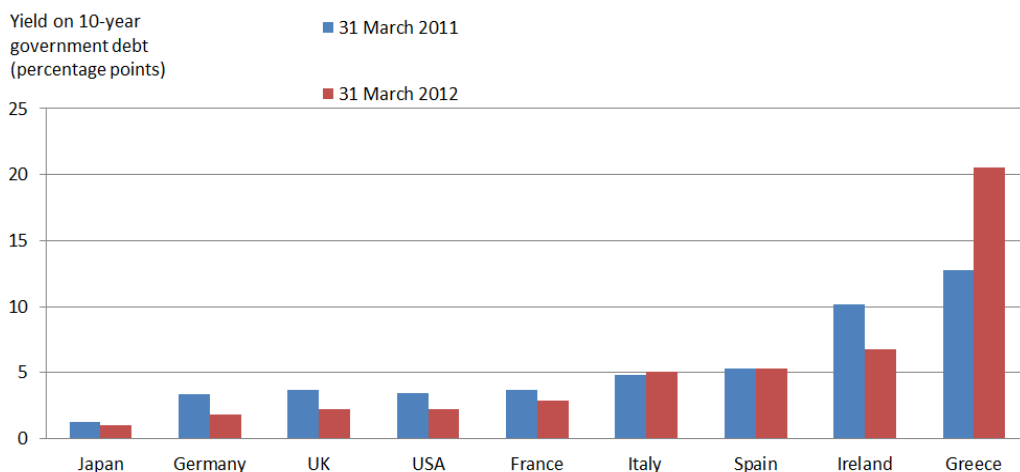
The main component of government borrowing is through gilt-edged securities (gilts). Gilts are debt issued by the UK Debt Management Office (DMO) to cover the projected shortfall between the government's forecast cash expenditure and revenue. Whilst new gilts are being issued each year, gilts are also being repaid. The amount of gilts to be repaid is taken into account when the Treasury sets the total value of gilts for the DMO to issue each year (the DMO's 'debt remit').



Source: NAO analysis of Debt Management Office data

Gilts are issued for a predetermined period of time, over which they pay interest to the holder at a rate defined when the gilt is issued. This rate is generally fixed, but in some cases can be linked to inflation. The rate of interest the government pays on each gilt is set by the DMO based on expected market demand and the yield on existing gilts of similar maturity. The yield is the annualised return that an investor would make from holding a gilt to maturity. Because investors can choose to buy existing gilts instead of new gilts, the yield is a measure of the interest rate that government would need to pay on any new gilt issuance.

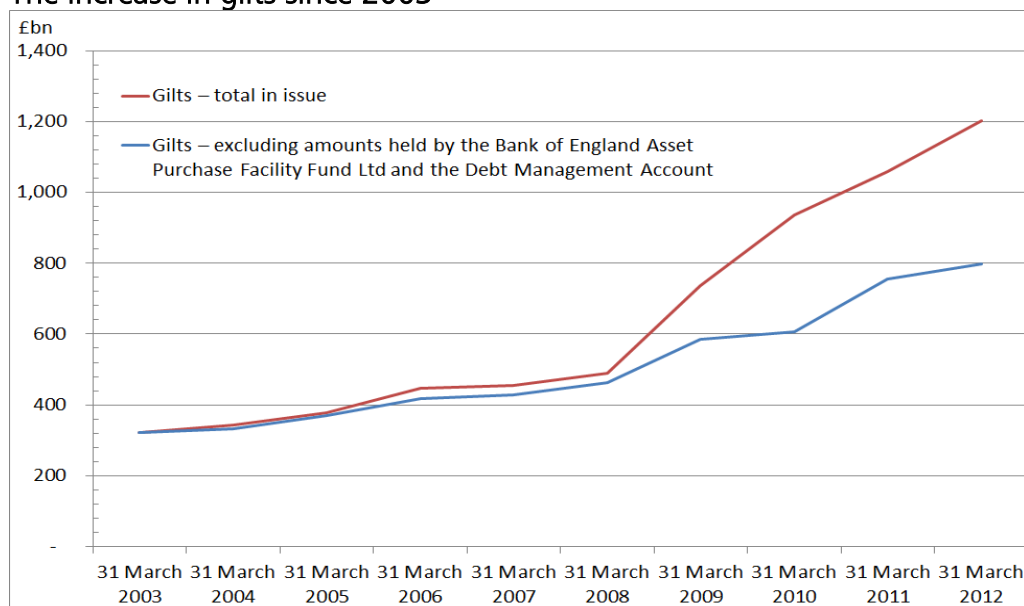
The gilt yield depends on many factors including monetary policy expectations and the relative risk of default associated with UK gilts in comparison to other countries. The yield on UK gilts is currently low in comparison to historical levels and when compared to debt issued by other many countries.



Source: Bloomberg

Figure 10

The increase in gilts since 2003



Source: National Audit Office analysis of National Loans Fund accounts, Debt Management Account, and Bank of England Asset Purchase Facility Fund quarterly statements.

Box 3: Restructuring the Royal Mail pension scheme

The government has been preparing, since late 2010, to privatise the Royal Mail.³⁶ As part of the restructuring, it will retain the majority of its pension deficit in public ownership. On 1 April 2012, the government transferred the majority of the assets and liabilities held by the Royal Mail's funded defined benefit pension scheme to a new, government owned, scheme. As at 31 March 2012, the Royal Mail scheme held £33.7 billion of assets and £30.8 billion liabilities leading to a pension deficit of £2.9 billion. In March 2012, the European Commission ruled that the Royal Mail must retain £150 million of the net liability to ensure a level of deficit in line with similar UK companies.³⁷

The transfer of the scheme will increase the pension liability in the WGA for 2012-13 but will not increase the overall net liability. Accounting standards require that assets held by funded pension schemes are not shown separately but are set against the pension liability. After the transfer, the Royal Mail scheme will become unfunded, and the assets formerly held by the scheme will be shown separately from the related liability. This means that while the net impact of the transfer on the overall net liability within the WGA will be zero, the reported pension liability will increase by the book value of assets reclassified.

On 22 November 2012, the government will cancel the £8.0 billion (nominal value) of gilts formerly held by the Royal Mail scheme. The remaining assets from the original scheme will eventually be sold.

Any profit realised will provide a one-off reduction in the annual deficit reported in the WGA in the year of sale. The government has stated that it will retain the cash proceeds to reduce the borrowing figure reported in the National Accounts.³⁸

Source: National Audit Office

³⁶ www.bis.gov.uk/policies/business-sectors/postal-services/postal-services-bill-2010

³⁷ ec.europa.eu/competition/state_aid/cases/241549/241549_1324295_215_3.pdf

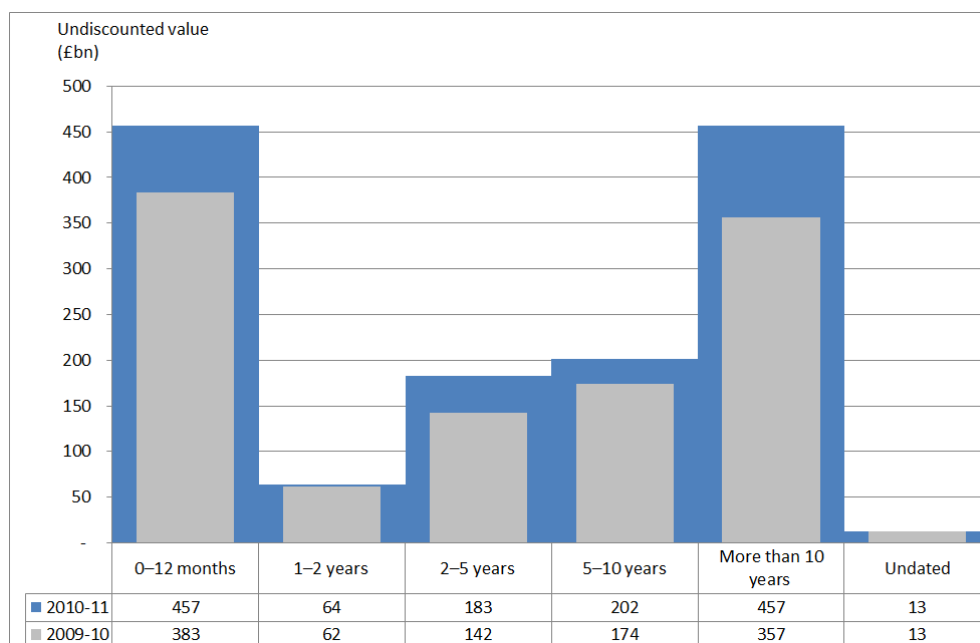
³⁸ 2012 Budget, cdn.hm-treasury.gov.uk/budget2012_complete.pdf

Repaying the amount borrowed

7.52 Nearly one quarter (£588 billion) of the liabilities on the WGA balance sheet are classed as current, meaning settlement could be required within twelve months of the year-end. It is not necessarily the case that all of these will definitely result in cash outflow, for example, current liabilities include the £52 billion of bank notes issued by the Bank of England. Liabilities that impose a contractual obligation to pay cash and are subject to liquidity risk are shown in **Figure 11** which indicates that the same amount, some £457 billion (undiscounted), is due for repayment after ten years or more as is due within 12 months.

Figure 11

The repayment profile of financial liabilities



NOTES

- Figure shows those financial liabilities subject to liquidity risk (undiscounted) at the earliest point at which payment could be contractually required.

Source: National Audit Office analysis of Note 35.5.3 to the 2010-11 WGA

The impact of consolidating Quantitative Easing on borrowing

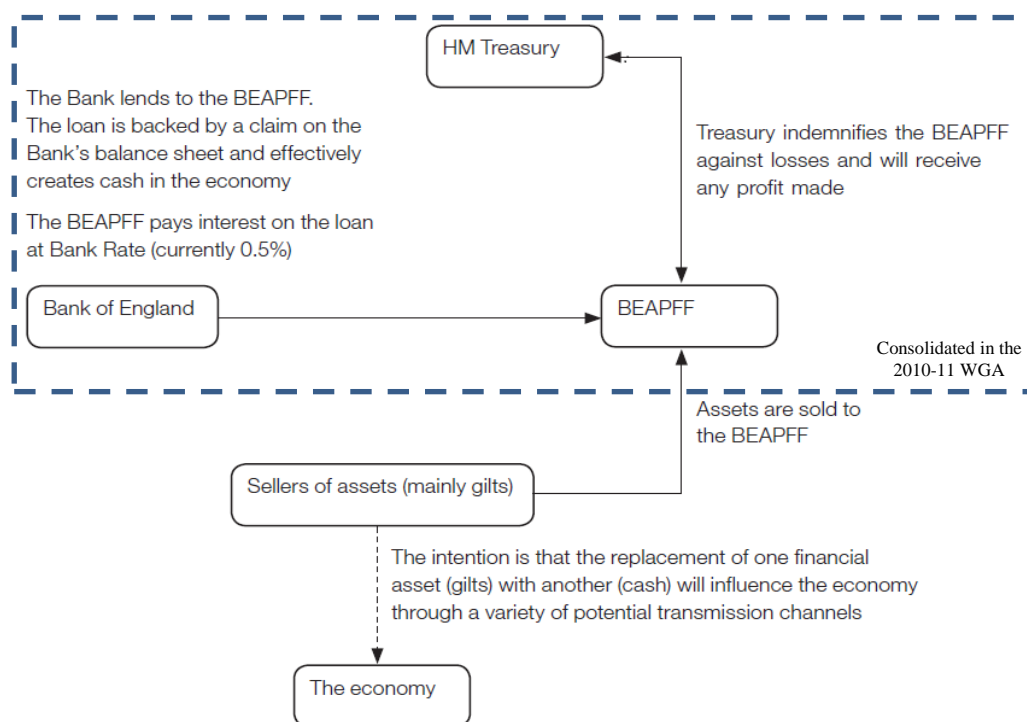
7.53 The Bank of England operates Quantitative Easing as a monetary policy tool to boost the money supply through the purchase of assets, mainly gilts.³⁹ The measure is run through the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), a subsidiary of the Bank of England. The Treasury indemnifies the BEAPFF against any loss and will receive any profits generated by selling the assets back to the market or holding them to maturity (Figure 12). As at 31 March 2011, the maximum size of the programme was £200 billion (increased to £375 billion by July 2012) and the BEAPFF was holding some £184 billion of gilts at that point.

7.54 Consolidating Quantitative Easing does not significantly reduce the overall liabilities of government but it does reduce the number reported as government borrowing. Once intra-government transactions are eliminated, the scheme represents an exchange of gilts (liabilities of the National Loans Fund) for central bank reserves (liabilities of the Bank of England).

³⁹ www.bankofengland.co.uk/markets/Documents/money/publications/redbookqe.pdf

Figure 12

The implementation of Quantitative Easing



Source: National Audit Office

The public sector pension liability

7.55 In the June 2010 Budget, the government reduced the pension liability by changing the measure of inflation used to uprate payments to pensioners to take effect from 1 April 2011. The change, from the Retail Price Index (RPI) to the Consumer Price Index (CPI), reduces the pension liability because the CPI measure is generally lower than RPI.⁴⁰ This change also generated a net gain of £126 billion in 2010-11 which reduced the annual deficit (Figure 5).

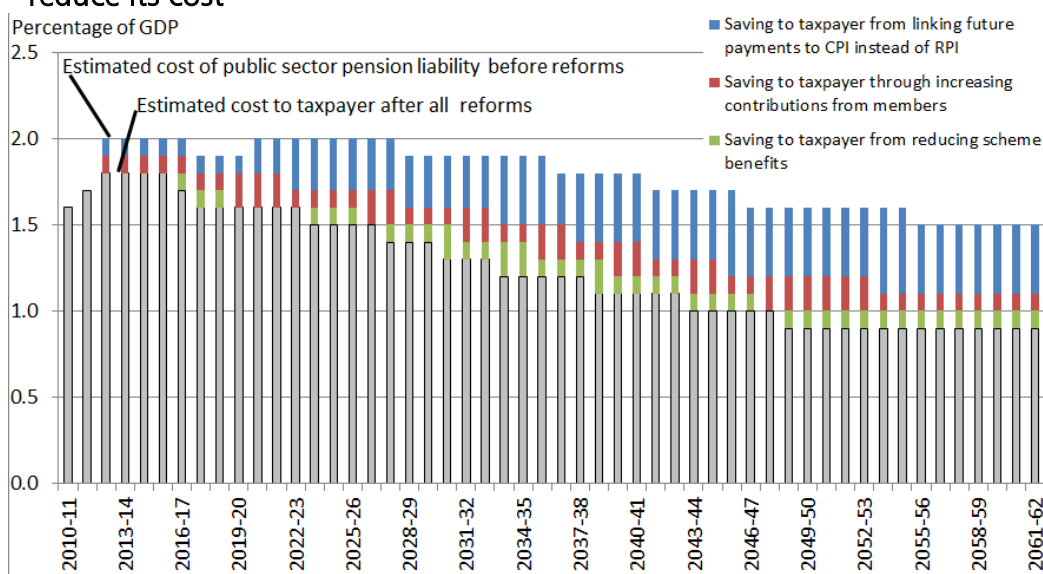
7.56 The government plans further reforms to reduce the cost of public sector pensions. The government introduced The Public Service Pension Bill in the House of Commons on 13th September 2012 to consider further reforms to public sector pension schemes following the recommendations of the Independent Public Service Pensions Commission.⁴¹ These reforms include requiring scheme members who are current employees of the government to pay increased contributions into the scheme. The OBR has estimated that these measures, if implemented, will reduce the cost of public sector pensions from around 1.5 per cent to 1 per cent of GDP by 2061-62 (Figure 13).

⁴⁰ CPI is derived from a different basket of goods, for example it excludes mortgage costs, and is calculated in a different way. The government believes that a measure excluding mortgage costs is more appropriate for calculating the pension liability because the majority of pensioners will not have a mortgage when they retire. CPI is the measure which the Bank of England attempts to maintain at 2 per cent.

⁴¹ *Independent Public Service Pensions Commission: Final Report*, March 2011

Figure 13

The long-term effects of the reforms to the public sector pension liability reduce its cost



Source: OBR, *Fiscal Sustainability Report*, July 2012

The wider cost of retirement to society

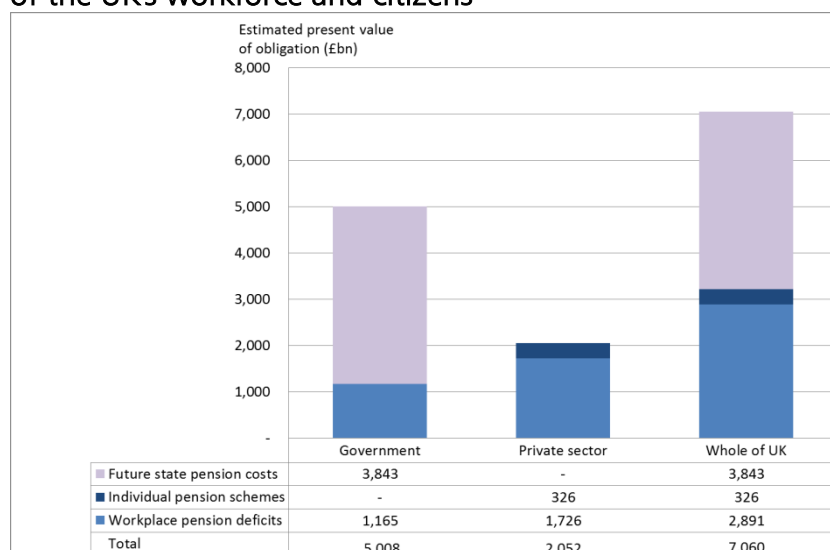
7.57 The cost of funding the retirement of the UK's population falls on the government, individuals and employers. The government is responsible for its own employees' pension payments and also for state pension payments which are paid to eligible citizens when they retire.

7.58 Despite the name, the state pension scheme is more like a social security benefit than a pension scheme. The WGA does not include a liability for the state pension scheme because, unlike public sector workers who have accrued their pension entitlement during the period of employment, citizens are only entitled to a payment under the state pension scheme if they meet certain criteria on the date that payment would be due. The WGA therefore recognises state pension payments as benefit expenditure when it is incurred. In 2010-11 the total state pension payment was £74 billion, the largest component of social security benefits (Note 6 to the WGA).

7.59 The Office for National Statistics has provided an indication of the £7 trillion cost of retirement (Figure 14). They estimate a public sector pension liability of £1.2 trillion and future state pension payments of some £3.8 trillion. The total private sector pension liability, which covers the entirety of the private sector is smaller, some £1.7 trillion.

Figure 14

The government has the majority of the obligation to fund the retirement of the UK's workforce and citizens



NOTES

1. Graph shows gross obligations to pay pensions (blue) and future state pension payments (purple). For defined contribution pension schemes the net liability is nil, because the amount to be paid is equal to the value of the assets held. For defined benefit schemes there may, if the scheme is funded, be assets which will be used to fund the payment so the net liability to the pension scheme will be lower. All public sector pension schemes and some private sector schemes are defined benefit schemes
2. The amounts shown for pension schemes is the estimated net present value of future payments (net of future contributions) in respect of pension rights accrued to December 2010. This includes the total remaining pension to be paid to those already retired plus payments for employment, up to December 2010, for those still working. This is the same basis used for the public sector pension liability in the WGA.
3. The WGA figure is most closely comparable to the £1.2 trillion workplace obligation shown under 'Government', however the graph shows the liability as at December 2010 using a 5 per cent (nominal) discount rate whereas the WGA reports the figure as at March 2011 using a discount rate based on high quality corporate bonds

Source: National Audit Office analysis of Office for National Statistics data

Valuing the pension liability

7.60 The largest sensitivity in the value of the pension liability is the discount rate used to determine the value of future payments. Accounting standards generally require that liabilities that become due over a long period of time are valued at the present value of the future payments, discounted at a rate reflecting the time value of money. The accounting standard used by the WGA requires the discount rate for pension liabilities to be set 'with reference to market yields at the end of the reporting period on high quality corporate bonds'.⁴² This means the value of the pension liability and the cost recognised will fluctuate based on market prices.

7.61 Although the choice of discount rate in the WGA is in line with accounting standards, it does not necessarily reflect the cost of funding the payments. The payments of public sector pensions will be funded through cash raised by taxation and government borrowing, rather than high quality corporate bonds. Applying alternative discount rates would lead to different values for the liability but would not necessarily eliminate the volatility (Figure 15). The Treasury has the ability to modify the interpretation of the accounting standard it uses for the WGA but believes corporate bonds are a more appropriate choice.

⁴² International Accounting Standard 19 – Employee Benefits

Figure 15

The effect of the discount rate on the public sector pension liability

	Volatile discount rate	Rate as at 31 March 2011 (%, nominal)
Rate used by central government pension schemes in the 2010-11 WGA	Yes – depends on market and inflation assumption	5.63
Gilt rate (30 year)	Yes – depends on market	4.36
Rate used for long-term provisions in the 2010-11 WGA	No	2.20
Green Book rate (used to appraise public spending across central government, assuming 2 per cent inflation)	No (assuming long-term inflation assumption not modified)	5.57

NOTE

1. A higher discount rate reduces the value of the pension liability because it ascribes a lower value to payments made in the future.

Source: National Audit Office

Provisions

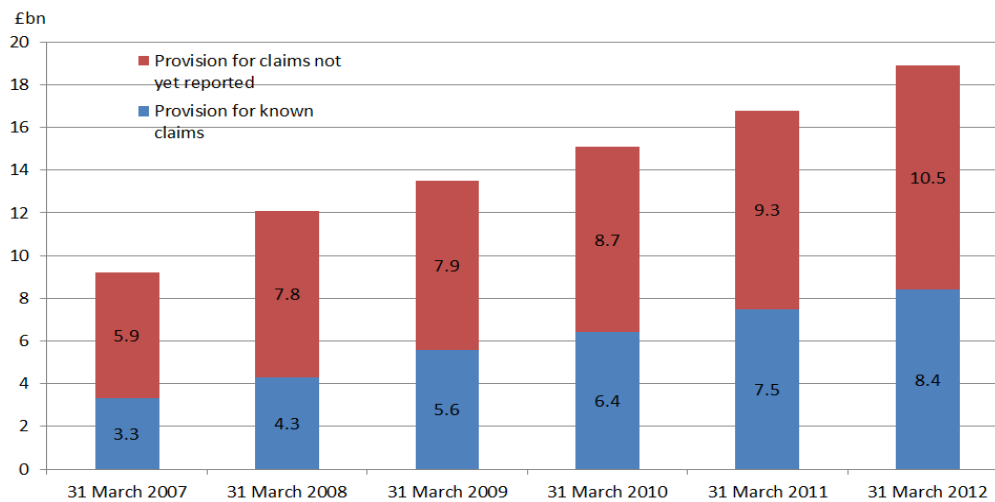
7.62 The other large category of liabilities in the WGA are provisions. The government has provided some £108 billion (Note 25 to the WGA) for costs it expects to have to meet at some point arising from past events. The largest provisions are for claims for clinical negligence (£18 billion, **Box 4**) and the costs of nuclear decommissioning (£61 billion, **Box 5**). The WGA also shows a £30 billion provision for 'other' costs which include amounts set aside for redundancies, restructuring and early exit from accommodation leases. Because of inconsistencies in how individual bodies categorised their provisions, reliable disaggregated figures cannot be disclosed in the WGA.

Box 4: Provisions for claims of negligence against the NHS

The WGA (Note 25) includes a provision of £17.5 billion for clinical negligence. Clinical negligence is the term given to a breach of a duty of care by healthcare practitioners in the performance of their duties which has been confirmed by the employing NHS body or through legal process. Claims for clinical negligence are typically long-term liabilities as it can take up to 30 years for claims to be reported and settling a claim can also take many years, depending on the complexity and circumstances of the case.

The largest element of this provision derives from the work of the NHS Litigation Authority which is the body responsible for managing claims of alleged negligence that are made against the NHS in England. The NHS Litigation Authority has increased its total provision for all claims of negligence from £9.2 billion as at 31 March 2007 to £18.9 billion as at 31 March 2012. The Authority also manages claims for non-clinical negligence relating to property expenses and liabilities to third parties however these are typically of a much lower value than claims for clinical negligence. In 2010-11, the Authority spent £863 million on claims for clinical negligence and £48 million on claims for non-clinical negligence.

In 2010-11, the Authority received 8,700 claims of clinical negligence against NHS bodies, up from 6,700 claims in 2009-10. For the first time in 2010-11, claimants were required to notify the Authority of their claim at the same time as notifying the defendant NHS body. The Authority believes that the increase in claims is due to faster reporting as well as more incidents converting to claims. In 2010-11 faster reporting was believed to be the principal factor, however the Authority's 2011-12 accounts report that it is uncertain to what extent each factor is now driving the change in the total number of claims.



NOTES

1. The chart shows the total provision for all liabilities, clinical and non-clinical. The figures shown are at the net present value of the claims received as calculated by the NHS Litigation Authority at the time of their publication.

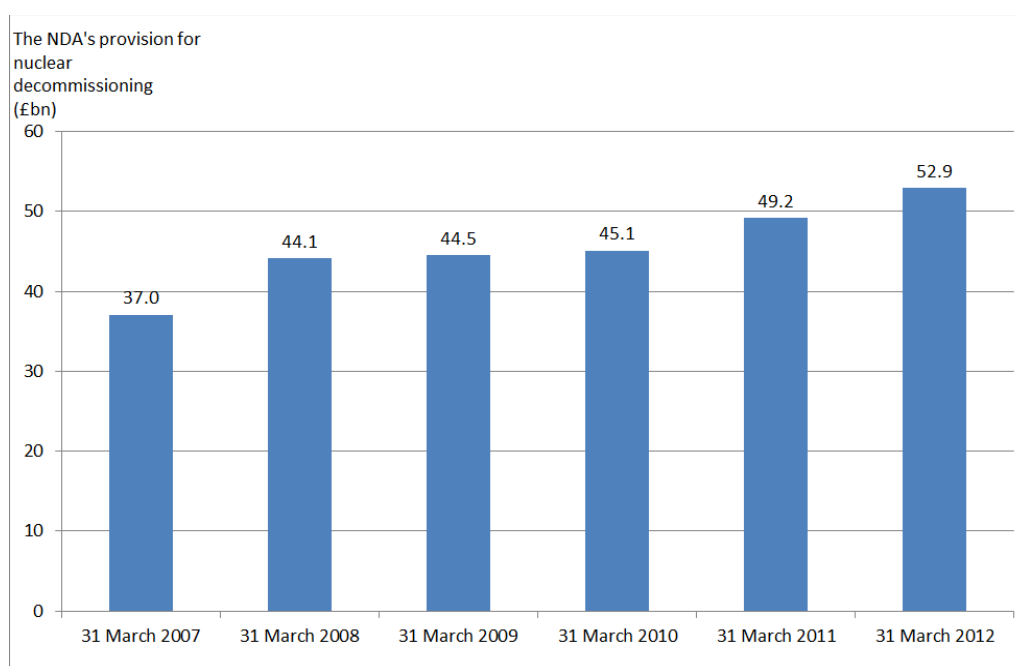
Source: National Audit Office analysis of NHS Litigation Authority accounts

Box 5: The provision for nuclear decommissioning

The WGA (Note 25) shows provisions of £60.9 billion relating to the estimated cost of decommissioning and cleaning up the civil and military nuclear estate. Some £49.2 billion of this relates to the 19 civil nuclear facilities now owned by the Nuclear Decommissioning Authority (NDA). The latest estimate, £52.9 billion as at 31 March 2012, is set out in the NDA's 2011-12 accounts and will be included in the 2011-12 WGA.

The NDA is responsible for operating civil nuclear sites prior to decommissioning, for decommissioning and cleaning up the sites, and for the safe management of all nuclear and non-nuclear waste. In practice, the NDA contracts out the delivery of site programmes (decommissioning, commercial fuel re-processing and commercial electricity generation) through management and operation contracts with five licensed operators called Site Licence Companies, however the responsibility for meeting the costs associated with decommissioning remains with the NDA Group.

Every year, the Group records its best estimate of the cost of decommissioning as a provision in its accounts. In recent years, the provision has increased in value due to inflation, changes in government policy and evolution of the planned decommissioning programme.



NOTES

1. The nuclear provision in the accounts of the NDA is the net present value of the expected costs of nuclear decommissioning.
2. The discount factor, set at 2.2 per cent, set by the Treasury, reflects the time value of money over the very long timescales, over 100 years, over which work will be carried out.

Source: National Audit Office analysis of Nuclear Decommissioning Authority accounts

Part Two:

Maximising the value of the WGA

7.63 This part outlines how the first WGA was received and the extent to which it was used. It outlines the improvements the Treasury has made since I last reported and highlights further improvements to make the WGA more useful.

How the 2009-10 WGA was used

7.64 The first WGA was published by the Treasury in November 2011 and was welcomed by parties outside government who saw its potential to aid transparency and accountability and to help the government manage the public finances:

- The International Monetary Fund described the publication of the WGA as ‘a valuable new perspective on public finances’ and ‘a step forward for fiscal transparency’.^{43,44}
- Moody’s credit rating agency said that the publication of WGA will add further strength to the process of developing the country’s long-term fiscal policy objectives.⁴⁵
- The Chartered Institute of Public Finance and Accountancy said the publication of the WGA ‘highlights the risks that governments around the world take in managing fiscal policy using National Accounts produced by statistical offices alone rather than complementing them with accounts produced using internationally recognised financial reporting standards’.⁴⁶
- The Institute of Chartered Accountants in England and Wales said the WGA is ‘a powerful new tool which Parliament and the public can use to scrutinise public spending, understand our financial obligations and to manage future public debt’.⁴⁷

7.65 The Committee of Public Accounts welcomed the 2009-10 WGA. The Committee stated that ‘the WGA will only serve its purpose – telling us what the government owns, owes, spends and receives – if it is timely and robust’ and set out four key principals for managing public finances:⁴⁸

- As the UK’s Ministry of Finance, the Treasury is responsible for managing public sector finances and for managing financial risk.
- Timely, reliable and complete information on what the government owes, owns, spends and receives provides the foundation for managing public finances.
- The WGA will help the Treasury to drive change through its management of the public sector’s balance sheet.
- Clear performance measures provide a catalyst for identifying and managing risk.

7.66 However, the Treasury itself has not yet made significant use of the WGA, in part because the WGA only had one year of audited data, but also because of the delay in producing the WGA (paragraphs 7.73 to 7.75). The Treasury is examining how it can use the WGA to inform the next Spending Review. It is considering how spending teams might use WGA data to assess the impact of policy changes on government’s long term financial position, identify new sources of revenue and improve the management of debt.

7.67 To date, the most extensive use of the WGA has been by the Office for Budget Responsibility (OBR). The OBR used the Treasury’s unaudited WGA data⁴⁹ to set out the impact of past government activity on the public sector balance sheet, and recognises that the WGA provides additional transparency. The OBR’s projections of future government spending and receipts (**Figure 6**) are not based on the WGA but are created from a bottom-up model which produces figures on the basis of the National Accounts. The government’s deficit reduction policy targets the measures reported in the National Accounts rather than the WGA, as there is not yet enough historical WGA data to make future projections.

⁴³ www.imf.org/external/pubs/ft/sdn/2012/sdn1202.pdf

⁴⁴ www.imf.org/external/pubs/ft/scr/2011/cr11220.pdf

⁴⁵ Moody’s Weekly Credit Outlook, 18 July 2011.

⁴⁶ www.cipfa.org/About-CIPFA/Press-Office/latest-press-releases/UK-Government-Accounts-set-a-new-high-standard

⁴⁷ www.icaew.com/en/about-icaew/newsroom/press-releases/2011-press-releases/restoring-confidence-will-be-critical-to-unlocking-business-investment-and-growth

⁴⁸ Committee of Public Accounts: 67th Report, *Whole of Government Accounts 2009-10*, HC 1696, 7 February 2012

⁴⁹ *Whole of Government Accounts: Unaudited Summary for the year ended 31 March 2011*, July 2012

7.68 The Department for Communities and Local Government published an unaudited version of the 2009-10 WGA covering just the English local government sector⁵⁰ (**Figure 16**). This publication provides more segmental analysis on English local government activity than is currently disclosed in the WGA, though it is not designed to be a 'true and fair' set of financial statements. The Department is considering whether to publish a similar document covering 2010-11.

Figure 16

Key elements of the financial position and performance of English local government

	2009-10 (£bn, unaudited)
Assets	314
Liabilities	(282)
Net assets	32
Total revenue	178
Total expenditure	(184)
Net financing costs and investment income	(13)
Net deficit for the year (£bn)	(19)

Source: WGA: Local Government in England sub-consolidation for 2009-10

The audit of the WGA revealed problems with its quality

7.69 For stakeholders to gain greater confidence in using the WGA, it needs to be robust. A key measure of 'robustness' of a set of accounts is the opinion provided by the external auditor. Overall, the 2010-11 WGA was a true and fair account of the government's financial position and performance but my audit opinion was qualified. As set out in Part 3 of this Report, I have qualified my opinion on the WGA because:

- **The WGA boundary did not follow accounting standards.** I believe that significant public sector entities such as Network Rail and the public sector owned banks should be included in the WGA, but the Treasury has excluded them. I continue to disagree with the Treasury's exclusion of further education institutions though I am content with its decision to exclude the higher education sector (**Box 6**).
- **The valuation of infrastructure assets was not consistent across the whole of government.** Local authorities valued infrastructure assets at depreciated historical cost whereas central government used depreciated replacement cost, a material inconsistency.
- **There was insufficient evidence that intra-government transactions and balances had been eliminated.** Accounting standards require that all such transactions are eliminated from the WGA.
- **I disagreed with the accounting treatment for the sale of 3G telecommunications licences.** In my opinion, the income from the sale of the licences should have been recognised over the life of the contract.
- **Some of the accounts of the bodies included in the WGA were themselves qualified.** The statutory audit of the Ministry of Defence's Resource Accounts and the Cabinet Office: Civil Superannuation Resource Accounts for 2010-11 resulted in qualified audit opinions, and those qualifications are material to the 2010-11 WGA.
- **I was not provided with sufficient evidence to support the completeness and valuation of assets held by local authority maintained schools and academies.**

⁵⁰ www.communities.gov.uk/localgovernment/localgovernmentfinance/governmentaccounts

7.70 The Treasury published unaudited WGA data⁵¹ before I concluded my audit, and before it had fully completed its preparation work. The unaudited data was published to support the work of the Office for Budget Responsibility (paragraph 7.67). Some of the figures have since changed materially and the errors identified reduced the reported annual deficit from £106 billion to £94 billion (Figure 17).

Figure 17

Changes to the unaudited WGA

	Unaudited WGA (£bn)	Change during audit (£bn)	Audited WGA (£bn)
Assets	1,226.4	1.3	1227.7
Liabilities	(2,421.5)	0.4	(2421.1)
Net liability	(1,195.1)	1.7	(1,193.4)
Tax revenue	515.4	-	515.4
Other revenue	95.9	2.7	98.6
Social security benefits	(204.0)	-	(204.0)
Staff costs	(193.1)	-	(193.1)
Other expenditure	(226.0)	(1.8)	(227.8)
Net financing cost and gains and losses on sale of assets	(94.3)	10.8	(83.5)
Net deficit for the year	(106.1)	11.7	(94.4)

NOTES

1. The unaudited publication did not include a cash flow statement or a statement of changes in taxpayer equity.
2. In 2009-10 annual deficit for the year changed by £0.4 billion and the net liability changed by £4.4 billion between the unaudited and audited positions.

Source: National Audit Office

Box 6: Understanding the WGA boundary – further and higher education

The Office for National Statistics (ONS) classifies further education institutions as part of the public sector, making them eligible for consolidation into the WGA. Higher education institutions are judged by the ONS to be part of the private sector and are therefore excluded from the WGA.

The difference in classification arises because, in 2010-11, government had the authority to intervene in the way that further education institutions operate, for example by restricting their ability to borrow money. These powers indicate that government has the ability to control the operating and financial policies of further education institutions. Government does not have equivalent powers to control higher education institutions as those bodies operate under Royal Charter.

The Treasury was unable to collect data from further education institutions in time to consolidate them in the 2010-11 WGA and it does not intend to consolidate them in 2011-12. Government's powers of control over further education institutions will be changed by legislation from 2012-13 onwards and the ONS will no longer regard them as public sector. The Treasury will need to consider whether the change in legislation leads to the inclusion of further education institutions in future years' WGA.

Source: National Audit Office

⁵¹ *Whole of Government Accounts: Unaudited Summary for the year ended 31 March 2011*, July 2012

Responsibility for improving the WGA rests with the Treasury and the bodies included in the WGA

7.71 Overall responsibility for the WGA rests with the WGA Accounting Officer, however all parts of government have a role to play in improving its quality and timeliness. The WGA Accounting Officer is responsible for compiling and producing the WGA, but the data that underpins the WGA is owned by the bodies that are consolidated into the Accounts.

7.72 The Finance Director (or equivalent) of each consolidated body is responsible for the accuracy and timeliness of individual data returns. Not all bodies prioritised the need to prepare robust and timely data for inclusion within the WGA, and WGA requirements are not widely understood throughout the public sector.⁵²

The time taken to produce the WGA limits the speed at which improvements can be made

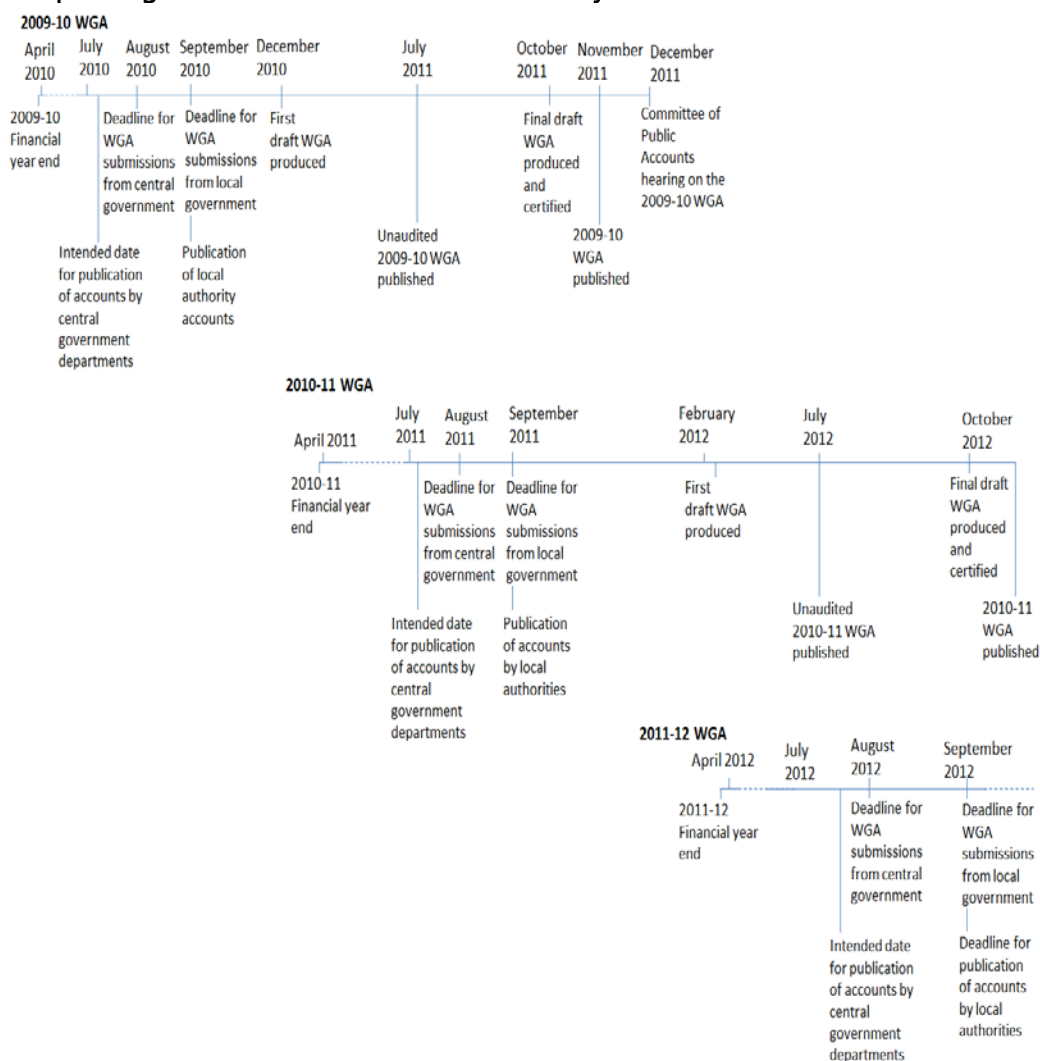
7.73 The 2010-11 WGA was certified in October 2012, some 19 months after the financial year ended. While it takes time to produce a robust and complete WGA, any delay between gathering the data and publishing the WGA reduces its ability to inform government policy.

7.74 The delay in producing the WGA limits the speed at which improvements can be made. Many improvements depend on the right data being collected by the Treasury, but by the time the 2009-10 WGA was completed, work was underway on the 2010-11 WGA and most of the underlying data had already been received by the Treasury. Because preparation cycles currently overlap, improving the WGA takes more than one year (**Figure 18**).

⁵² Treasury Group Internal Audit, *Review of the Whole of Government Accounts Processes: Final Report*, May 2012

Figure 18

Improving the WGA takes more than one year



Source: National Audit Office

7.75 Despite limited opportunities, the Treasury has taken steps to make the WGA more transparent and complete. The 2010-11 WGA:

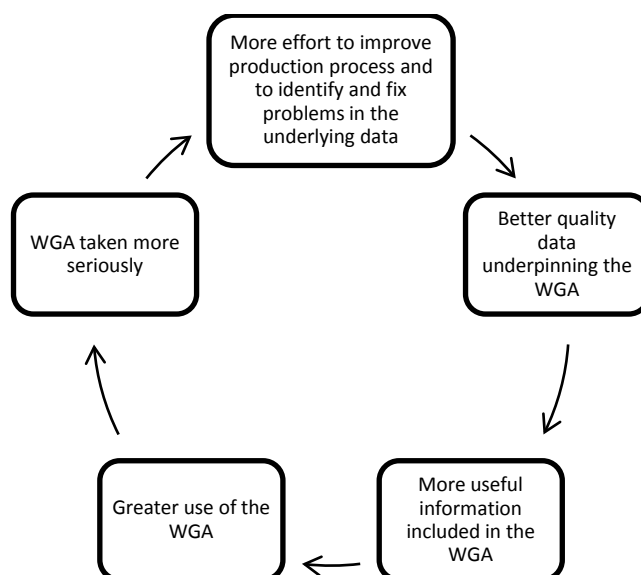
- included comparative data for the first time;
- had greater internal consistency because local government has now adopted International Financial Reporting Standards; and
- consolidated the financial activities of additional bodies, such as the Bank of England.

Improvements need to be made to the process for producing WGA

7.76 The more that improvements are made to the content of the WGA and the process for producing it, the more the WGA is likely to be used, both within government and by external organisations (Figure 19).

Figure 19

Improving its data and production process could lead to greater use of the WGA



Source: National Audit Office

7.77 Both the Treasury and NAO have identified significant problems in the returns submitted to Treasury by bodies included within the WGA. It takes time for Treasury to fix these problems further delaying the production of the WGA. Such issues include:

- expenditure being incorrectly classified;
- double counting of the same assets in different accounts;
- insufficient identification and disclosure of intra government transactions and balances; and
- poor data being submitted, for example by academies (Box 7).

Box 7: Data quality in the academies sector

The increasing size of the academies sector made collecting all its data a challenge.

As at 31 March 2011, there were 470 academies of which 195 were omitted from the WGA. This figure consists of 123 academies which each received less than £5 million funding in 2009-10, 59 which opened in the last two months of 2010-11, and 13 which did not submit returns. There was no attempt by the Treasury or the Department for Education to estimate the impact of these omissions but I estimate that the omission of these academies means assets in the WGA are understated by some £2.1 billion.

For the 275 academies that were included in the WGA, my audit found significant weaknesses in the process for consolidating them. Academies prepared their individual WGA returns but the Department for Education did not put in place arrangements for the returns to be audited. Sufficient review of data quality or reasonableness had not been carried out, by either the Treasury or the Department for Education, to compensate for this lack of audit. More information is included in Part 3 of this Report.

Source: National Audit Office

7.78 Some transactions and balances which should have been eliminated remained in the WGA. To present a true and fair view of government's finances, and to meet the requirements of accounting standards, transactions and balances between government entities need to be eliminated from the WGA.

7.79 The level of un-eliminated transactions and balances, which I estimate to be up to £22.6 billion of income and expenditure and up to £10.4 billion of assets and liabilities, has led me to qualify my audit opinion. Further details are included in Part 3 of this Report and Box 8 highlights that issues arising within the English health sector were a significant part of this problem.

7.80 Although Treasury established a process to eliminate transactions and balances over £1 million it was not followed consistently. There was a process, within central government only, for different bodies in the WGA to agree transactions above £5 million but there were particular difficulties with the elimination of intra-group transactions and balances between central and local government. For 2011-12, the Treasury has tried to reduce the level of un-eliminated balances by providing feedback to local authorities where they find problems with their data.

Box 8: Eliminating transactions within the health sector

The WGA information for the health sector is consolidated from WGA returns from the three health accounts – the Department for Health Resource Accounts, the NHS Trusts Summarised Accounts and the Foundation Trusts Consolidated Accounts. All of these accounts are big consolidations in their own right and there are significant amounts of business activities between the groups and also with the local government sector. The auditors of all three of these accounts identified material errors and omissions in the intra-government transactions and balances that were reported. This included issues where one party had reported an intra-group transaction or balance but the counter-party had not reported any and where there were significant differences between what each body had reported. The Department for Health has not done sufficient work in 2010-11 to resolve these issues. These errors and omissions made up a significant amount of the elimination uncertainty for which I qualified my opinion on the WGA.

From 2011-12 all these accounts will be consolidated into one account for Department of Health under the clear line of sight initiative (paragraphs 7.81 to 7.82). This will mean that more work will have to be undertaken by the Department of Health to agree the intra-group transactions and balances. The Treasury expects that this will reduce the uncertainty in the consolidated health accounts, which will in turn reduce the uncertainty within the WGA.

Source: National Audit Office

7.81 From 2011-12, the accounts of non-departmental public bodies and some other arms-length bodies will be consolidated into that of their parent Department under the Treasury's Clear Line of Sight initiative. This should improve the WGA process as the Treasury will need to collect data from fewer bodies and more of the work to eliminate intra-government transactions and balances will have been completed during the preparation of each Department's annual accounts.

7.82 The need to consolidate more bodies contributed to two departments publishing their accounts later than the July 2012 Parliamentary recess deadline. Other departments also missed the deadline for other reasons. Delays in finalising the statutory accounts will lead to delays in completing and submitting the related WGA data.

The lack of detail in the WGA inhibits its effectiveness

7.83 As I recommended in my report on the 2009-10 WGA, the Treasury could improve the WGA by including additional disclosures. The 2010-11 WGA does not show how spending is distributed across the main areas of government such as defence, health and education. It does not detail how much was spent on different types of goods and services such as consultancy and accommodation. Nor does it show how public spending is distributed between individual nations or regions within the UK.

7.84 The Treasury currently uses its Combined Online Information System (COINS) to collect WGA data from central government. The system and data is also used for other activities such as producing public expenditure statistics and Supply Estimates for Parliamentary scrutiny. From 2012-13, a new Online System for Central Accounting and Reporting (OSCAR) will replace COINS. The new system is designed to

allow a more detailed segmental analysis to be produced, provided the Treasury collects suitable data from component bodies.

7.85 The Treasury plans to introduce a common chart of accounts across central government from April 2014. If successful, this will improve the consistency with which different departments record transactions in their accounts and improve the process for preparing data for the WGA. Currently there are inconsistencies in the way that WGA entities record their transactions, for example, some bodies categorise spending on agency staff as consultancy (part of 'Purchase of goods and services') while others categorise similar spending as part of 'Staff costs'.

Part Three:

Qualifying the Comptroller and Auditor General's Audit Opinion

Introduction

7.86 This part of my Report explains why I have qualified my Audit Opinion on the 2010-11 Whole of Government Accounts (WGA) and sets out the actions taken by the Treasury to address the issues identified in my Report on the 2009-10 Accounts. As highlighted in Part 2, it will take some time before a number of issues, which have led me to qualify my Audit Opinion, will be able to be resolved. However, whilst the Treasury has made some progress this year, my qualifications remain.

My obligations as auditor

7.87 Under the Government Resources and Accounts Act 2000, I am required to examine and certify the WGA. International Standards on Auditing (UK and Ireland) require me to obtain sufficient evidence to allow me to give reasonable assurance that the WGA is free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

Qualified opinion owing to multiple disagreements and limitation of scope of my audit

7.88 I have qualified my opinion on the WGA 2010-11 because in a number of significant areas, the WGA does not comply with International Financial Reporting Standards as adapted for the public sector context,⁵³ and this has had a material effect on the figures presented. My qualifications relate to:

- the definition of public bodies that the Treasury has used to determine the boundary of the WGA;
- the inconsistent application of accounting standards;
- how the Treasury has accounted for income from the sale of 3G licences; and
- the qualification of an audit opinion of an account that is included in the WGA.

7.89 I have also limited the scope of my opinion on the WGA 2010-11 because of the following issues, which meant I was unable to obtain sufficient and appropriate audit evidence to base my opinion in certain areas:

- there was a lack of evidence to support the completeness of the intra-government adjustments to remove transactions and balances between the bodies included in the WGA;
- there was a lack of evidence to support the completeness and accuracy of the value of schools' assets included in the Accounts; and
- issues arose within the audit opinions of two material accounts included in the WGA where auditors have limited the scope of their audits.

⁵³ The Government Financial Reporting Manual (FReM)

Qualified audit opinion relating to the WGA boundary

7.90 I have qualified my opinion because, in my view, the Treasury has not complied with applicable accounting standards in determining which bodies to include in the WGA. Significant assets and liabilities have therefore been left out of the financial statements.

7.91 I cannot quantify the impact of this on the WGA with certainty, as I do not have information needed to identify the transactions that would have to be removed to provide a consolidated view. However, for illustrative purposes, I have examined the impact of adding the gross assets, liabilities, income and spending published in the individual accounts of public sector bodies that the Treasury did not include in the WGA. Although these figures are only illustrative, they demonstrate that the exclusions represent a material omission from the WGA (**Figure 20**).

Accounting policies

7.92 The definition of the whole of government boundary, and applying this definition, determines the content of the WGA. The Government Resources and Accounts Act 2000 allows the Treasury to define the WGA boundary.⁵⁴ The Treasury has adopted the classifications of public bodies used by the Office for National Statistics in preparing the National Accounts.⁵⁵

7.93 The Act also requires that the Treasury prepares the WGA so that they 'present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context'. The Treasury has established a framework⁵⁶ to support this requirement which is based on International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board. The National Accounts are based on the statistical standards set out in the European System of National and Regional Accounts 1995 (ESA 95). Financial statements and the National Accounts are each prepared for different purposes and are not therefore alternative views on the same issue – they can legitimately lead to different conclusions.

Figure 20

Gross accounts figures from bodies that have been excluded from WGA as compared to the total figures in the WGA (for illustrative purposes)

	Revenue	Expenditure	Impact on the net deficit	Assets	Liabilities	Impact on the net liability
	(£bn)	(£bn)	(£bn)	(£bn)	(£bn)	(£bn)
2009-10 WGA (before restatement)	582.0	(746.5)	(164.5)	1,207.5	(2,419.3)	(1,211.8)
Total values of entities excluded from the 2009-10 WGA	108.4	(108.7)	(0.3)	3,167.1	(3,006.7)	160.4
2010-11 WGA	614.0	(708.4)	(94.4)	1,227.7	(2,421.1)	(1,193.4)
Total values of entities excluded from the 2010-11 WGA	85.4	(85.5)	(0.1)	2,654.7	(2,510.3)	144.4
2010-11 figures consist of:						
Network Rail Ltd	5.7	(5.4)	0.3	43.3	(35.6)	7.7
State-owned banks (temporary ownership) ¹	75.4	(77.6)	(2.2)	2,463.7	(2,338.8)	124.9
State-owned banks (longer-term ownership) ²	2.1	(0.9)	1.2	111.6	(108.1)	3.5
Financial services sector ³	0.9	(0.9)	0.0	20.1	(20.2)	(0.1)
Further education institutions ⁴	-	-	-	12.6	(5.5)	7.1
Transport sector ⁵	1.1	(0.5)	0.6	2.8	(1.8)	1.0
Other ⁶	0.2	(0.2)	0.0	0.6	(0.3)	0.3

⁵⁴ Section 9, Government Resources and Accounts Act 2000.

⁵⁵ Note 1.21.1 to the WGA.

⁵⁶ The Government Financial Reporting Manual (FRoM).

NOTES

1. Lloyds Banking Group plc, Royal Bank of Scotland Group plc and Northern Rock plc.
2. Northern Rock (Asset Management) plc and Bradford & Bingley plc.
3. Financial Services Authority and the Financial Services Compensation Scheme.
4. No amounts have been included for income and spending of Further Education Institutions because the majority of their operations are funded through government grants, which are included in Note 9 to the WGA. Their assets and liabilities have been estimated from data provided by the Higher Education Funding Council for England and relate to 2009-10.
5. Directly Operated Railways Ltd (including East Coast Mainline Ltd), CTRL section 1 Finance plc and Trust Ports. The figures for Trust Ports have been estimated from available accounts for year-ended 31 December 2009.
6. NHS non-independent charities and London Councils. The figures for NHS charities have been estimated by the Department of Health from 2007-08 Charity Commission data.
7. The net assets of some of the entities are included in the WGA as equity investments, for example the state-owned banks are included in the accounts of the Treasury.
8. The bodies have been treated as if they had always been entirely owned by the public sector. In particular, for Royal Bank of Scotland and Lloyds Banking Group, no account has been taken of the residual private sector shareholdings.
9. Not all bodies have a March year-end, for example figures for the banks relate to the year ending 31 December 2010.

Source: National Audit Office analysis of Note 36 to the WGA and published accounts

7.94 In my view, the most appropriate basis to apply when compiling a set of financial statements would be the criteria set in the accounting standards. The Government Resources and Accounts Act requires the Treasury to prepare accounts for a group of bodies, each of which appears to the Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. In describing the boundary for National Accounts, adopted by the Treasury for WGA, the statistical standards require including bodies that the Office for National Statistics has classified as 'public sector'. Public sector bodies are those where government has control over determining their general corporate policy. Accounting standards, however, require including bodies that are subject to government control, and define control as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'.⁵⁷

7.95 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes Network Rail Ltd, a company limited by guarantee with the Department for Transport acting as one of the guarantors. Under accounting standards, Network Rail would be classified as being part of the public sector as the government's interest in the company is akin to an equity shareholder's interest. The government effectively gives security to the providers of debt finance to Network Rail and is acting as the lender of last resort in the event of financial difficulties. The government is the party bearing the risk that would normally be borne by equity capital if Network Rail were an equity-based company.⁵⁸ The Treasury, by excluding Network Rail, which had net assets of £7.7 billion at 31 March 2011 (£6.0 billion at 31 March 2010), did not comply with the accounting standards that in my view prevail.

7.96 The Treasury has also not applied its own criteria consistently. There are a number of bodies that fall within both statistical and accounting definitions of government 'control' but have not been included in the WGA. These are set out in Annex 2 to the WGA and include:

- bodies that are not controlled by government, such as Parliament;
- a number of small bodies that have not been consolidated on the basis of size (Annex 3 to the WGA); and
- other bodies that are partly or wholly owned by the government, such as the Royal Bank of Scotland (Figure 20).

7.97 I consider it appropriate to exclude those bodies that are not controlled by the government, as this treatment meets with accounting standards. I also consider that it is acceptable to exclude the small

⁵⁷ *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

⁵⁸ *Network Rail NAO ONS Joint Statement*, www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-articles/network-rail/ons---national-audit-office--nao--joint-statement-on-network-rail.pdf.

bodies as they do not represent a significant exclusion from the WGA. However, by adopting generally accepted accounting standards, I consider that the bodies listed in Figure 20, where the government has the ability to control their activities, should be included in the WGA.

Actions taken by the Treasury since 2009-10

7.98 In the 2010-11 Accounts, the Treasury has included the Bank of England, Bank of England Asset Purchase Facility Fund and London Continental Railways. The impact of this is included in Note 39 to the WGA.

7.99 The Treasury has set out in Annexes 2 and 5 of the WGA the actions it intends to take to include further bodies into future WGAs. In 2011-12, it intends to include the Financial Services Compensation Scheme and public railway companies (excluding Network Rail). It also intends to consolidate Bradford & Bingley plc and Northern Rock (Asset Management) plc in 2013-14 and will consider the status of other public sector entities not currently included in the WGA.

Recommendation for further action

7.100 The qualification of my opinion on this matter is likely to remain until all significant government-controlled entities, including Network Rail Ltd, are included in line with accounting standards.

7.101 I continue to recommend that the Treasury should review its criteria for including bodies in the WGA.

Qualification arising from disagreement relating to the inconsistent valuation of infrastructure assets

7.102 I have qualified my opinion because of the impact of the inconsistent application of accounting policies. This arises as the statutory accounts of the bodies included in the WGA were prepared on different bases and the Treasury did not make adjustments for the known differences in accounting for infrastructure assets when consolidating these bodies. The Treasury has provided evidence of an assessment of the different accounting frameworks to prove that there were no other material differences.

The WGA accounting framework

7.103 The accounting framework that WGA must follow is set out in the Government Financial Reporting Manual which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, for 2010-11, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that did not fully comply with the requirements of the Government Financial Reporting Manual.⁵⁹

7.104 Under accounting standards,⁶⁰ the Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the WGA is prepared on the same basis. The Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2010-11. I do not have the information to fully quantify the effect of this limitation.

7.105 The one area of material misstatement is due to differences between the accounting policies of central and local government. The accounting framework used by local government requires local authorities to value their infrastructure assets using historic cost, but central government values assets at their depreciated replacement cost in line with the requirements of the Government Financial Reporting Manual.⁶¹ The Treasury estimates that this difference in accounting treatment has resulted in an understatement of asset value of at least £200 billion.⁶²

⁵⁹ Annex 4 to the WGA

⁶⁰ *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

⁶¹ As required under paragraphs 6.2.10 to 6.2.18 of the Government Financial Reporting Manual

⁶² Note 14.1 to the WGA: The best proxy available for depreciated replacement cost is the calculated asset value used by the Office for National Statistics from their perpetual inventory model reflected in the *National Accounts*. The 2011 *National Accounts* estimated the value of the road network at £248 billion as at 31 December 2009, implying a likely understatement of at least £200 billion.

Actions taken by the Treasury since 2009-10

7.106 In 2009-10, I qualified the WGA more widely as the local government sector prepared their accounts on a UK version of the accounting standards. In 2010-11, the local government sector adopted a revised framework which followed International Financial Reporting Standards. This brought this sector's accounting framework more in line with that of central government and the Treasury has provided evidence of consideration of any remaining differences in accounting treatments, which are not material, with the exception of the issue described above for valuing infrastructure assets.

Recommendations for further action

7.107 The Treasury should make the adjustments that are required to bring the accounts into line, where material. The complexities involved in moving the accounting for infrastructure assets from historic cost to depreciated replacement cost mean that this information will not be available until at least 2012-13. Until accounting frameworks are applied consistently, the qualification of my audit opinion will remain.

Qualification arising from limitation in audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

7.108 I have limited the scope of my opinion concerning the lack of evidence about the completeness and accuracy of removing intra-government transactions and balances, when the WGA was prepared.

Accounting requirements

7.109 The WGA is a consolidated account which is prepared by including the financial activities of around 1,500 government controlled bodies. Transactions and balances between these bodies are removed so that income, expenditure, assets and liabilities are not overstated between bodies within the group, as required by accounting standards.⁶³

7.110 To present a true and fair picture of the financial position and financial results of government, it is important that the removal of these intra-government transactions and balances are complete and accurate.

7.111 The Treasury collects information from each of the bodies in the WGA through specifically designed WGA information packs. Each body completes and submits these packs, which will have been audited by their external auditor, either directly to the Treasury or via a sub-consolidating body.

7.112 Within these packs, bodies must identify and report all intra-government balances, transactions, income and expenses that are over £1 million and the relevant counterparty. Examples of such transactions are where a central government department gives grants to local government, such as the Revenue Support Grant. With this information, the Treasury matches these balances and transaction streams and removes them from the WGA. The scale of this task is challenging and, as part of the preparation of the WGA for 2010-11, the Treasury removed significant values of transactions and balances (Figure 21).

⁶³ *International Accounting Standard 27 – Consolidated and Separate Financial Statements*, paragraph 20.

Figure 21**Value of transactions removed from the WGA in 2010-11**

	Gross value (£bn)	Transactions removed (£bn)	Net value (£bn)	Balance removed (%)
Income	1,043	411	632	39.4
Expenditure	1,136	428	708	39.2
Net deficit for the year	151	N/A	94	N/A
Assets	1,884	656	1,228	34.8
Liabilities	3,026	605	2,421	20.0
Net liabilities	1,142	N/A	1,193	N/A

Source: National Audit Office analysis of Note 2 to the WGA.

7.113 I have considered the approach that the Treasury has taken in removing these intra-government transactions and balances during 2010-11. There is a process for bodies included in the WGA to identify these intra-government balances and for some level of agreement process to take place. However, there is a material residual uncertainty over some of the figures in the financial statements because the removal of transactions and balances is potentially incomplete and inaccurate. This uncertainty arises where:

- either of the entities declare different intra-government transactions or balances (requiring an assumption to be made as to the correct amount to remove); or
- only one entity declares an intra-government transaction or balance (a particular issue between central and local government bodies); or
- neither body declares an intra-government transaction or balance.

7.114 Using available evidence, I have estimated the level of uncertainty as being up to £22.6 billion (£17.0 billion in 2009-10) in gross income and expenditure and up to £10.4 billion (£6.8 billion in 2009-10) in gross assets and liabilities (**Figure 22**). I have reviewed the impact of the uncertain transactions on the financial statements and have concluded that the uncertainty mainly resides within the gross figures in the primary statements (between income and spending and separately between assets and liabilities). There are, however, some transactions which are not confined solely to one statement, such as grant-in-aid expenditure and grant-in-aid financing within reserves. This means that the potential impact of the uneliminated intra-government transactions and balances on the annual deficit and net liabilities is not likely to be zero. I estimate that the potential maximum impact of the uncertain transactions in Figure 22 could be up to £2.9 billion (£3.2 billion in 2009-10), which represents a possible misclassification between the annual deficit and net liabilities.

7.115 It is the significance of the estimated level of gross uncertainty within the statements, and the potential gross overstatement of income, expenditure, assets and liabilities, which has led me to qualify my opinion rather than the potential impact on the annual deficit or net liabilities.

Figure 22**Sources of uncertainty about transactions removed and the impact on the financial statements in 2010-11**

	Sources of uncertainty			Impact on the financial statements (potential overstatement) (£bn)
	Entities declaring different intra-government transactions or balances (£bn)	Only one entity declares an intra-government transaction or balance (£bn)	Neither entity within an expected relationship declares an intra-government transaction or balance ¹ (£bn)	
Consolidated statement of revenue and expenditure	8.0	8.6	6.0	22.6
Consolidated statement of financial position	1.6	7.0	1.8	10.4

NOTES

1. Calculated with reference to transaction streams and balances that are expected to be fully removed.

Source: National Audit Office

Actions taken by the Treasury since 2009-10

7.116 There has not been any significant action taken to address this qualification in 2010-11.

Recommendations for further action

7.117 The Treasury needs to undertake further work to reduce the uncertainties in removing intra-government transactions and balances in future years. It needs to enhance the process so that bodies in the WGA provide more robust information about their transactions and balances with other bodies, and to better identify relevant counterparties. From 2011-12, the process to widen the resource accounting boundaries for central government departments (under the clear line of sight project) could also lead to more intra-government transactions and balances being removed from the accounts of individual bodies, especially in the health sector. Removing more intra-government transactions would allow the Treasury to reduce the uncertainties I have identified.

7.118 If the Treasury can strengthen its process and get better information to reduce the level of uncertainties within acceptable levels, I may be able to remove this qualification in future years.

Qualification arising from disagreement in the accounting for 3G licences

7.119 I have qualified my opinion because I consider that the Treasury has not complied with accounting requirements regarding accounting for the income from the sale of 3G licences in April 2000. The impact of this on the 2010-11 WGA is that income is understated by £1.1 billion, liabilities are understated by £10.3 billion (£11.4 billion in 2009-10) and the general fund is understated by £10.3 billion (£11.4 billion in 2009-10).

Accounting requirements

7.120 In April 2000, the government sold five licences for using the electromagnetic spectrum for third generation mobile phone services (3G). They sold the licences in auction and raised some £22.5 billion. All licences were paid for at this date and receipts were surrendered by the Radiocommunications Agency in full to the Consolidated Fund. The accounts of the Consolidated Fund are prepared on a cash basis and this particular receipt was properly accounted for in its 2000-01 financial statements.

7.121 In my view, income arising from this auction has been accounted for incorrectly in the WGA. Following accounting standards,⁶⁴ as licence holders have the right to access the spectrum for 20 years

⁶⁴ *International Accounting Standard 18 – Revenue*

and there is an ongoing performance obligation to maintain the airwaves, a more correct accounting treatment would be to recognise this income over 20 years rather than in the first year.

7.122 The Treasury does not agree with this view and, as disclosed in Note 1.22.3 to the WGA, believes that there are no additional material performance obligations. Therefore, the Treasury has not adjusted the WGA for this transaction and I have qualified my opinion based on my disagreement of this material issue.

Recommendations for further action

7.123 The Treasury should, in my view, adjust the WGA for this transaction and, where there are future transactions of this nature, account for them in line with the accounting standards.

Qualification arising from disagreement and limitation in audit scope from underlying statutory audits of bodies in the WGA

7.124 Where the external auditors of bodies in the WGA qualify their opinions on the statutory accounts, I am required to consider the impact of these 'true and fair' qualifications on my opinion on the WGA. In 2010-11, external auditors qualified their opinions of some 23 accounts (29 accounts in 2009-10, Annex 1 to the WGA).

7.125 The most significant of these qualifications relate to the resource accounts of the Ministry of Defence and the Cabinet Office: Civil Superannuation. Given these accounts have a material impact on the WGA, I have also qualified my opinion on the WGA. Further details can be found in my audit opinions and within the annual accounts of the Ministry of Defence⁶⁵ and Cabinet Office: Civil Superannuation⁶⁶.

7.126 I will assess the impact of any qualifications on the statutory accounts for the 2011-12 audit of WGA. However, due to aspects of the Ministry of Defence qualification, it is likely that elements of this qualification will remain in place.

7.127 Following qualification of the 2010-11 Civil Superannuation accounts, the Cabinet Office and the pension scheme administrator, MyCSP, attempted to obtain further evidence to support the calculation of benefits paid, but this was insufficient to assure me that there was no material error in the WGA. The 2011-12 accounts are currently being audited.

Qualification arising from limitation in audit scope due to lack of evidence supporting the completeness and accuracy of the values of schools' assets included in the Accounts

7.128 I have qualified my audit opinion because not all school assets are included in the WGA and because of the poor quality of the data submitted by academies, which I consider to be material to the Accounts. I cannot determine with any reliability the total misstatements arising from these schools issues, however, the estimates in the paragraphs below are based on average values of school assets. I estimate that up to £32.5 billion of assets held by voluntary aided and foundation schools, up to a further £9.0 billion of assets held by voluntary controlled schools and some £4.0 billion of assets held by academies have been omitted from the WGA. In addition, a further £3.5 billion of assets reported in academies' returns was not subject to audit.

Assets held by local authority maintained schools in England and Wales

7.129 All local authority maintained schools are classified by the Office for National Statistics as public sector and hence fall within the Treasury's boundary for inclusion within the WGA. Taking an approach based on accounting standards,⁶⁷ I also consider that these schools should be included within the WGA, when taking into account the controls that local authorities and the Secretary of State for Education have the ability to exert over such schools.

7.130 However, such schools have only been included in the WGA if their financial activities were included in the accounts of individual local authorities. A working group, led by the Chartered Institute of Public

⁶⁵ www.mod.uk/NR/rdonlyres/E0440EEF-1A7E-4335-B6CD-1CC394FA0AAD/0/mod_ara1011.pdf

⁶⁶ www.official-documents.gov.uk/document/hc1011/hc02/0245/0245.pdf

⁶⁷ *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

Finance and Accountancy (CIPFA), reported⁶⁸ that not all schools were included within local authority accounts⁶⁹ and set out its understanding of how local authorities accounted for the different types of local authority maintained school:

- **Community schools** should be recognised on the balance sheets of local authorities as they are wholly owned by the authority and the authority sets the admission policy and admission numbers.
- **Foundation and voluntary aided schools** should not normally be recognised on the balance sheets of local authorities as the assets are not usually owned by the authority and these schools set their own admissions policies and admission numbers.
- **Voluntary controlled schools** are the most difficult category to determine and the factors are very finely balanced. The non-current assets are not generally owned by the authority, but local authorities are normally responsible for setting the admissions policy and admissions numbers and therefore have some control over the access to economic benefits and service potential inherent in the assets. However, it is not clear that in doing so they have deprived the governors and trustees of this service potential. CIPFA therefore considered that there is not sufficient evidence to override the form of the arrangement and that therefore these assets are not the assets of the local authority.

7.131 The working group further considered that local authorities are likely to have accounted for schools in line with the group's conclusions. Foundation, voluntary aided and community schools have generally been accounted for in line with the conclusions set out above (although there is some evidence that a small number of authorities have recognised all four categories of school on their balance sheet). The treatment of voluntary controlled schools is less clear and would be a decision for the local authority on a case by case basis.

7.132 In considering the impact of this treatment of the local authority maintained schools' sector on the WGA, I have concluded that I have insufficient evidence to support the completeness and accuracy of the value of these schools' assets within the WGA. Although I have sufficient evidence over the treatment of community schools, which are accounted for within local authorities' accounts, I have been presented with no evidence to enable me to conclude that the assets of foundation, voluntary aided and voluntary controlled schools have all been included within the WGA.

7.133 Based on the estimates I do have, the omissions are material to the WGA. **Figure 23** summarises the treatments, showing the number of schools in each category and the estimated value of these schools' buildings. There are up to £32.5 billion of assets excluded from WGA for voluntary aided and foundation schools, with a further potential omission of up to £9.0 billion for voluntary controlled schools.

⁶⁸ FRAB (108) 11: Consideration of the Code of Practice on Local Authority Accounting 2011/12 and 2012/13, www.hm-treasury.gov.uk/d/frab108_11.pdf

⁶⁹ This is the correct treatment for the local authority accounts and there is no suggestion that the underlying opinions on any of these accounts is compromised.

Figure 23**Estimated net book value of local authority maintained schools, and whether these are included or excluded from the WGA**

	Local authority maintained schools				Total
	Community	Voluntary aided	Voluntary controlled	Foundation	
Number of primary schools ¹	10,154	3,700	2,507	486	16,847
Estimated net book value ² (£m)	30,462	11,100	7,521	1,458	50,541
Number of secondary schools ¹	1,505	521	99	811	2,936
Estimated net book value ² (£m)	22,575	7,815	1,485	12,165	44,040
Total estimated net book value (£m)	53,037	18,915	9,006	13,623	94,581
Estimated value of schools included in WGA (£m)	53,037	-	-	-	53,037
Estimated value of schools not included in WGA (£m)	-	18,915	-	13,623	32,538
Estimated value of assets which may or may not be included within the WGA (£m)	-	-	9,006	-	9,006

NOTES

1. Estimates as at January 2011 based on a typical carrying value of £3 million for primary schools and £15 million for secondary schools as estimated by CIPFA.
2. These estimates may be overstated as some schools may lease their assets, rather than owning them. There is no information available to take account of this.

Source: FRAB (108) 11: Consideration of the Code of Practice on Local Authority Accounting 2011/12 and 2012/13, www.hm-treasury.gov.uk/d/frab108_11.pdf

Academies

7.134 Academies are all considered to be controlled by government⁷⁰ and are required to be consolidated into the WGA. In my Report on the 2009-10 WGA, I highlighted that the information provided by academies was not of adequate quality, was unaudited and was based on assumptions which had not been proven valid. The number of academies has increased from 203 at 31 March 2010 to 470 at 31 March 2011, increasing the significance of this sector to the WGA.

7.135 Of the 470 academies, only 275 have been consolidated into the WGA. Of the 195 academies that have not been consolidated, Ministers at the Department for Education and HM Treasury agreed that 182 would not be asked to submit data for WGA due to the amount of funding they receive (all academies receiving less than £5 million of funding) or the date they opened (those academies opening after 4 January 2011). We estimate that the omission of these academies has resulted in an understatement of gross assets in these Accounts of £2.4 billion. In addition, 13 academies asked to submit data for WGA either made no submission or submitted a return of insufficient quality for it to be included in the WGA. I estimate this resulted in a further understatement of gross assets of £0.2 billion.

7.136 Academies have a 31 August year-end. Where they have submitted data for WGA, these returns are compiled from a five month pro-rata of their audited accounts for the period to 31 August 2010, together with unaudited data to reflect subsequent activity to March 2011. Some academies did not prepare audited accounts for the period to 31 August 2010, and their return was based entirely on unaudited data. Under section 10 of the Government Resources and Accounts Act 2000, bodies that have been designated for inclusion in the WGA are required to arrange for their returns to be audited. The Treasury and the Department for Education agreed not to require academies' returns to be audited and there has been insufficient review by the Treasury and the Department for Education to provide assurance that the data included in the Accounts is accurate and complete. My audit team has reviewed the process for consolidating these returns but were unable to obtain any assurance over the accuracy and completeness of this data.

⁷⁰ The Office for National Statistics classify academies as public sector and academies are also deemed to be controlled under the accounting standards definition.

7.137 As a result, I have been unable to obtain sufficient and appropriate audit evidence on which to base my opinion on this element of the WGA. The value of unaudited data included within WGA from the individual academy returns for the year ended 31 March 2011 is £2.2 billion of income, £1.9 billion of expenditure, assets of £3.5 billion and liabilities of £0.3 billion.

7.138 In reviewing the data submitted from academies' returns which has been included within the WGA, I observed that 122 of the 275 academies reported land and buildings with a value of less than £1 million. I estimate that this could mean that there has been an additional omission of assets with a value of £1.4 billion on the basis that I expect that the majority of academies should recognise school buildings in their accounts. Academies would generally either own their school buildings or they would be rented under long-term leases which are likely to be accounted for as finance leases and capitalised under International Financial Reporting Standards (IFRS). Academies produce their accounts under the Charities SORP, and the WGA returns were not adjusted for any differences between this reporting framework and IFRS. One of the key differences is that under IFRS more leases are treated as finance leases, which results in an unquantifiable understatement of WGA assets.

7.139 There are a number of other significant weaknesses in the process for consolidating academies in the WGA:

- The Department for Education does not have a robust process for consolidating academies which resulted in significant adjustments being made to the academies' figures.
- The process was not designed to obtain many of the required disclosures for academies.
- Academy land and buildings are generally transferred from a local authority when a maintained school converts to an academy. However, the Department for Education and the Treasury did not put in place procedures to accurately identify such transfers and ensure consistency between the local authority WGA returns and the information submitted by academies.

Actions taken by the Treasury and Department for Education

7.140 For 2011-12, the Treasury has amended the returns local authorities are required to submit to the Treasury to include numbers and values for local authority maintained schools that are not included in the local authorities' balance sheets. However, this part of the return is not subject to audit. I will review the accuracy and robustness of this data for 2011-12 and beyond.

7.141 The Department for Education is putting in place an alternative approach, which they are now piloting, for 2011-12 that will use available data sources to construct a WGA return for academies as at 31 March 2012. They are developing a framework to collect, validate and adapt this information with a view to submitting data to HM Treasury for the WGA that is, in all material respects, equivalent to the position as at 31 March 2012. This aims to mitigate the impact of academies having their financial year end in August instead of March, but does introduce a level of risk and estimation uncertainty that will require careful management by the Department and flexibility in approach if results prove inadequate or inconclusive.

Recommendations for further action

7.142 The Treasury should undertake further work to develop a more robust methodology for collecting data on numbers and values of schools' assets to ensure that the assets in the WGA are complete, accurate and auditable.

7.143 The academies sector increased significantly in size between 31 March 2011 and 31 March 2012 and is continuing to grow, with 1,660 academies open at 31 March 2012. The Treasury and the Department should continue to work towards putting into place a sustainable methodology for collecting data from academies which will provide a true and fair view of the financial state of the academy sector which is auditable.

Other issues on which I have not qualified my opinion

7.144 There are a number of other issues that I wish to draw attention to, although I have not qualified my opinion for these issues:

- I have included an emphasis of matter paragraph in my audit opinion for one account that is significant to the WGA, highlighting an area that is significantly uncertain in the values reported. This value has been calculated based on reasonable assumptions, but could change with future events. This relates to the uncertainties in estimating costs of the liabilities of the Nuclear Decommissioning Authority.
- The external auditor of some 22 accounts (16 in 2009-10) included in the WGA, qualified their audit opinions owing to the material existence of irregular spending;⁷¹ that is using resources not in accordance with Parliamentary intentions. Of these, two are of significance to the WGA. These cover error and fraud in benefit payments and tax credit payments. These irregularities lead me to qualify my regularity opinion on the resource accounts of the Department for Work and Pensions since 1988-89 and the trust statement of HM Revenue and Customs since 2003-04. Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, irregular transactions do not lead to a qualification of my audit opinion on the WGA.

Amyas C E Morse
Comptroller and Auditor General
29 October 2012

National Audit Office
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⁷¹ Included in this number are 10 accounts qualified on a 'true and fair' basis as explained in paragraph 7.124.

8 Whole of Government Accounts

Consolidated Statement of Revenue and Expenditure

For the year ended 31 March 2011

	<i>Note</i>	2011 £bn	2010 Restated £bn
Taxation revenue from direct taxes	3	(296.4)	(285.2)
Taxation revenue from indirect taxes	3	(165.2)	(148.0)
Taxation revenue from local taxes	3	(53.8)	(52.1)
Revenue from sales of goods and services	4	(49.8)	(51.0)
Other revenue	5	(48.8)	(47.1)
Total revenue		(614.0)	(583.4)
Social security benefits	6	204.0	197.1
Staff costs	7	193.1	179.7
Pension past service costs and indexation adjustment	7	(126.0)	0.7
Purchase of goods and services	8	159.2	160.9
Cost of grants and subsidies	9	68.4	66.2
Depreciation and impairment charges	10	80.4	51.6
Provision expense	25	18.3	(17.0)
Other expenditure	11	27.5	28.0
Total expenditure		624.9	667.2
Net deficit before financing costs		10.9	83.8
Investment revenue	12	(5.1)	(4.4)
Finance costs	13	40.5	33.1
Interest on pension scheme liabilities	27	60.8	58.9
Expected return on funding pension schemes' assets	27	(13.0)	(9.0)
Net financing costs		83.2	78.6
Revaluation of financial assets and liabilities		(3.3)	(0.9)
Net loss on disposal of assets		3.6	1.2
Net deficit for the year		94.4	162.7

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

		2011 £bn	2010 Restated £bn
Net deficit for the year	<i>Note</i> <i>SoRE</i>	94.4	162.7
Other comprehensive income			
Net gain on revaluation of property, plant and equipment	<i>SoCTE</i>	(21.2)	(7.0)
Net (gain)/loss on revaluation of available for sale financial assets	<i>SoCTE</i>	2.1	(11.3)
Actuarial (gain)/loss on pension liabilities	<i>SoCTE</i>	(99.9)	286.8
Net other comprehensive deficit/(income)		(119.0)	268.5
Total comprehensive deficit/(income)		(24.6)	431.2

The Statement of Comprehensive Income includes the net deficit as well as the effects of asset revaluation gains and actuarial gains associated with the pension liability. These gains and losses are currently recognised in reserves in the Statement of Changes in Taxpayers Equity; if realised in the future, they will impact on the net deficit shown in the Statement of Revenue and Expenditure.

Consolidated Statement of Financial Position

As at 31 March 2011

	<i>Note</i>	2011 £bn	2010 Restated £bn
Non-current assets			
Property, plant and equipment	14	710.0	712.8
Investment property	15	12.4	12.0
Intangible assets	16	34.3	36.3
Trade and other receivables	17	15.1	14.4
Equity investment in the public sector banks	18	56.5	61.1
Other financial assets	22	120.6	119.2
Total non-current assets		948.9	955.8
Current assets			
Inventories	20	12.0	12.0
Trade and other receivables	17	130.7	125.0
Cash and cash equivalents	21	22.5	19.7
Gold holdings		9.0	7.3
Assets held for sale	19	1.9	1.7
Other financial assets	22	102.7	128.0
Total current assets		278.8	293.7
Total assets		1,227.7	1,249.5
Current liabilities			
Trade and other payables	23	(104.2)	(103.1)
Government borrowing and financing	24	(217.2)	(200.9)
Provisions for liabilities and charges	25	(12.0)	(15.7)
Other financial liabilities	26	(254.2)	(270.1)
Total current liabilities		(587.6)	(589.8)
Net current liabilities		(308.8)	(296.1)
Total assets less current liabilities		640.1	659.7

Non-current liabilities			
Trade and other payables	23	(77.7)	(74.0)
Government borrowing and financing	24	(691.0)	(580.9)
Provisions for liabilities and charges	25	(96.1)	(86.5)
Net public service pension liability	27	(959.5)	(1,134.7)
Other financial liabilities	26	(9.2)	(11.5)
Total non-current liabilities		(1,833.5)	(1,887.6)
Net liabilities		(1,193.4)	(1,227.9)
Financed by Taxpayers' Equity:			
Liabilities to be funded by future revenues			
General reserve	<i>SoCTE</i>	1,401.9	1,426.9
Revaluation reserve	<i>SoCTE</i>	(221.8)	(214.9)
Other reserves	<i>SoCTE</i>	13.3	15.9
Total liabilities to be funded by future revenues		1,193.4	1,227.9

The financial statements and supporting notes and annexes on pages 91 to 240 were approved by Sharon White as the Accounting Officer for Whole of Government Accounts on 24 October 2012.

Sharon White
Accounting Officer
24 October 2012

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2011

		General reserve	Revaluation reserve	Other reserves	Total
	<i>Note</i>	£bn	£bn	£bn	£bn
Changes in taxpayers' equity					
At 1 April 2009		970.7	(205.0)	15.6	781.3
Net deficit for the year ended 31 March 2010 (before restatement)	<i>SoRE</i>	164.5	-	-	164.5
Net gain on revaluation of property, plant and equipment		-	(7.0)	-	(7.0)
Net gain on revaluation of available for sale financial assets		-	(11.3)	-	(11.3)
Actuarial loss on pension liabilities	<i>27.6</i>	286.8	-	-	286.8
Receipt of donated and government granted assets		(1.1)	-	(0.3)	(1.4)
Other movements on reserves		(1.8)	0.3	0.4	(1.1)
Transfers between reserves		(4.5)	4.4	0.1	-
Balance at 31 March 2010		1,414.6	(218.6)	15.8	1,211.8
Restatements		12.3	3.7	0.1	16.1
Balance at 1 April 2010 (restated)		1,426.9	(214.9)	15.9	1,227.9
Net deficit for the year ended 31 March 2011	<i>SoRE</i>	94.4	-	-	94.4
Net gain on revaluation of property, plant and equipment		-	(21.3)	0.1	(21.2)
Net loss on revaluation of available for sale financial assets		-	2.1	-	2.1
Actuarial gain on pension liabilities	<i>27.6</i>	(99.9)	-	-	(99.9)
Receipt of donated and government granted assets		(0.6)	-	(0.3)	(0.9)
Other movements on reserves		(14.4)	5.2	0.2	(9.0)
Transfers between reserves		(4.5)	7.1	(2.6)	-
Balance at 31 March 2011		1,401.9	(221.8)	13.3	1,193.4

General reserve includes the pension reserves and government grant reserves. Revaluation reserve includes assets available-for-sale. Other reserves include the donated assets reserve, the hedging reserve and reserves restricted for specific purposes.

Consolidated Cash Flow Statement

For the year ended 31 March 2011

	<i>Note</i>	2011 £bn	2010 £bn
Cash flows from operating activities			
Net deficit before financing costs	<i>SoRE</i>	10.9	83.7
Adjusted for non-cash transactions		(9.5)	(21.6)
Increase in trade and other receivables		0.9	5.0
Increase in inventories		0.8	0.8
Decrease in trades and other payables		33.5	2.1
Use of provisions	<i>25</i>	12.4	11.9
Net cash outflow from operating activities		49.0	81.9
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		50.5	45.8
Proceeds from disposal of non-financial assets		(4.6)	(2.6)
Payments to acquire financial assets		46.6	331.2
Proceeds from disposal of financial assets		(71.7)	(244.4)
Net loans to students		6.4	4.3
Net cash outflow from capital expenditure and financial investment		27.2	134.3
Net cash outflow before financing activities		76.2	216.2
Cash flows from financing activities			
Investment revenue	<i>12</i>	(5.1)	(4.3)
Finance costs (excluding finance leases and PFI contracts)	<i>13</i>	37.7	32.7
Finance charges in respect of finance leases and PFI contracts	<i>13</i>	2.8	2.2
Increase in gilt edged stock		(126.4)	(218.1)
Increase in bank and other borrowings		(1.0)	(24.9)
Increase in other/non-trade receivables		(0.7)	1.7
Decrease in other/non-trade payables		-	5.8
Other financial liabilities - net cash inflows/ (outflows)		13.7	(10.4)
Net cash inflow from financing activities		(79.0)	(215.3)
Net (increase)/ decrease in cash and cash equivalents	<i>21</i>	2.8	(0.9)
Cash and cash equivalents at the beginning of the period	<i>21</i>	19.7	9.0
Cash and cash equivalents at the end of the period	<i>21</i>		8.1
Restatements			11.6
Cash and cash equivalents at the end of the period (restated)	<i>21</i>	22.5	19.7

Notes to the Accounts

Note 1. Statement of accounting policies

1.1 Statement of compliance

These financial statements have been prepared by HM Treasury in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2010-11 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Chapter 14 of the 2010-11 FReM describes the specific adaptations and interpretations of the accounting standards for WGA. The main adaptations and interpretations of IFRS provided in the FReM are:

- IAS 10 '*Events after Reporting Period*' is interpreted for WGA such that the requirement that the financial statements be adjusted for significant transactions or events that occur between a WGA entity's reporting date and the WGA reporting date does not apply;
- IAS 27 '*Consolidated and Separate Financial Statements*' is adapted for WGA such that it shall comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money, in accordance with the GRAA. HM Treasury's decisions apply the GRAA and FReM, taking into account the *National Accounts* classification of entities to the public sector, as determined by the Office for National Statistics. This adaptation was agreed by the FRAB to reflect that WGA has no parent entity and to maximise the benefits of WGA in allowing comparisons to the *National Accounts*; and
- IFRS 8 '*Operating segments*' is interpreted for WGA such that no information needs to be disclosed about products or services, geographical areas or major customers.

Exceptions to the application of IFRS adapted and interpreted by the FReM are:

- certain non-departmental public bodies (NDPBs) and public corporations (PCs), whose accounts are prepared under UK GAAP; and
- entities that were set up as charities, whose accounts are prepared under the Charity Statement of Recommended Practice that follows UK GAAP.

Further information on departures from the FReM is set out in Annex 4.

1.2 Prior period restatements

Material adjustments applicable to prior periods arising from either changes in accounting policy, changes in the WGA boundary or from restatements in the underlying accounts from correcting, restating or reclassifying are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated to the extent that this is possible. The Statement of Financial Position balances and 2009-10 Statement of Revenue and Expenditure balances for the prior period and the opening balances of the Statement of Changes in Taxpayers Equity have therefore been restated. In line with IAS 1, the 2009-10 Consolidated Cash Flow Statement and the 2009-10 Segmental Reporting Analysis have not been restated as it would be impractical to do so. A restated 2009-10 Statement of Revenue and Expenditure and Statement of Financial Position with details of material restatements are provided in Note 39.

1.3 Reporting entities

The consolidated financial statements, as defined in the GRAA, consolidate a group of entities that appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. This group includes central government departments, non-departmental public bodies, public corporations, local authorities, the National Health Service and the devolved administrations.

A list of all the entities within the WGA boundary and consolidated in this account, referred to collectively as “WGA entities”, is shown in Annex 1. Some entities have not been included in WGA at this time largely for pragmatic and materiality reasons. All the banks classified to the public sector, except for the Bank of England (which has been fully consolidated), have been included as investments in these statements and have not been fully consolidated. A few entities that are not controlled by an executive arm of government are also not consolidated. These entities excluded from consolidation are listed in Annex 2. In addition, minor entities have not been included in WGA if they meet certain criteria. The minor entities and key financial numbers are listed in Annex 3. The critical judgements involved in establishing the WGA boundary are outlined in Note 1.22.1.

The financial statements are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. As a consequence, and for the purposes of WGA, no parent company is disclosed in the statements and notes, only the position of the consolidated entities. Accordingly, this account comprises a set of consolidated financial statements rather than being a group account.

1.4 Basis of preparation

This account has been prepared under the historical cost convention, modified where appropriate to account for the revaluation of non-current assets and stocks by reference to current costs.

The reporting period for the financial statements of the UK Whole of Government is the financial year from 1 April to 31 March. Where necessary, the financial information for entities that have a financial year end other than 31 March has been adjusted for any transactions or events that have occurred since their most recent financial year end and that are significant for the Government’s financial statements.

Activities are ‘acquired’ only if they come from outside the WGA boundary. Activities are ‘discontinued’ only if they cease entirely or move outside the WGA boundary, for example, if an entity is reclassified from the public sector to the private sector. Changes in the organisation of the Government’s activities are accounted for as mergers and have no effect on the presentation of the financial statements.

1.5 Basis of consolidation

The assets, liabilities, revenues and expenditures of WGA entities are added together line by line. Shared ownership assets that are not recognised in the individual accounts of WGA entities are included in the consolidated accounts to the extent that they are controlled by government and are material. All material balances and transactions between entities included in the consolidation are eliminated. Balances and transactions that are less than £1 million are not considered to be material and are not eliminated. Where material, adjustments are made to the financial statements of WGA entities to make the accounting policies consistent with accruals accounting.

1.6 Going concern

This account is prepared on a going concern basis to the extent that the underlying accounts of WGA entities are prepared on a going concern basis.

1.7 Operational and presentational currency

The government’s operational and presentational currency is pounds sterling. Amounts are presented in these statements to the nearest £0.1 billion.

1.8 Foreign currency

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currency at the financial year end are translated at the rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in

the Statement of Revenue and Expenditure, except when deferred in equity as qualifying cash flow hedges.

1.9 Use of estimations

The preparation of the financial statements of WGA entities requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenditure. The estimates and associated assumptions are based on historical experience and specific relevant factors. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Where accounting estimates and judgements significantly affect the amounts recognised in these consolidated financial statements, they are described in Note 1.22.

1.10 Disclosures

In line with the 2010-11 FReM, a segmental analysis is provided on the basis of sectors (such as central government and local government) and not on the basis of products or services, geographical areas or major customers.

On certain matters, the detailed level of disclosure required by financial reporting standards is not appropriate for WGA. In such cases, detailed disclosures are omitted but are available in the individual accounts of the consolidated entities. These are detailed in Annex 4.

1.11 Revenue

Revenue is recognised when it can be measured reliably and it is probable that the economic benefits will flow to government. Revenue is accounted for under the accruals convention. It is recognised in the period in which services are provided. Where revenue had been received for a specific activity to be delivered in future years, that income is deferred.

1.11.1 Taxation revenue

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably, and it is probable that the economic benefits from the taxable event will flow to government. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

Revenues are deemed to accrue evenly over the period for which they are due. Taxes and duties are accounted for on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. All repayments are accounted for on an accruals basis with the exception of repayments of capital gains tax, inheritance tax, petroleum revenue tax and stamp duty.

Taxable events for the material tax streams are as follows:

Revenue Type	Revenue Recognition Point
Income tax	Earning of assessable income during the taxation period by the taxpayer.
Social security and National Health Service contributions	Earning of income on which national insurance is payable.
Corporation tax	Earning of assessable profit during the taxation period by the taxpayer.
Value added tax	Undertaking of taxable activity during the taxation period by the taxpayer.
Hydrocarbon oils duty	Production of taxable goods.
Other excise duties	Movement of goods out of a duty bonded warehouse. For vehicle excise duties, when it is paid.
Stamp duty	When property or shares are purchased.
Council tax	Residency in, or ownership or tenancy of, a chargeable dwelling for any period in the financial year.
National non-domestic rates	Occupation or ownership of a relevant non-domestic property for any period in the financial year.

Income tax, national insurance contributions and value added tax, other than input value added tax on goods and services, are shown after balances and transactions have been eliminated between consolidated entities and HM Revenue and Customs.

Income tax does not include tax credits. These are categorised as an expense and included within benefits as per Note 6.

The 'tax gap', defined as the difference between all the tax theoretically due in HMRC's view and the tax actually collected, is not recognised in these financial statements. The tax liability therefore includes all tax that is due under either the letter or the spirit of the law. Under this definition the tax gap revenue loss equates to the shortfall resulting from non-payment, fraud, error, and artificial avoidance schemes.

1.11.2 Operating revenue

Operating revenue is measured at the fair value of the consideration received or receivable. It is recognised in the period in which the goods or services were provided. Rental revenue is recognised on a straight-line basis over the term of the lease. EU Income is recognised by WGA entities for funding they expect to receive from the EU in respect of expenditure incurred on EU supported projects.

1.11.3 Investment revenue

Revenue from interest is accrued using the effective interest method (EIM). The EIM uses an effective interest rate that discounts estimated future cash payments through the life of the asset to the net carrying amount of the financial liability. Revenue from dividends is recognised when the right to receive a dividend is established.

1.12 Expenditure

Expenditure is recognised in the period in which it is incurred.

1.12.1 Social security benefits

Included in social security benefits are statutory entitlements (most of which are included in the Social Security Contributions and Benefits Act), payable to private individuals and households. Social security benefits are accounted for as expenditure in the period to which they relate.

Social security benefits include tax credits, which are recognised in the year in which they are assessed and authorised by HM Revenue and Customs. Authorisation is the point at which the obligation to pay the tax credit arises. Payments of tax credits are provisional until entitlement is finalised after the financial year end. Underpayments are accounted for on a cash basis in the year of payment. Overpayments are recovered from future tax credit awards or through repayments by claimants.

1.12.2 Staff costs

Staff costs include salaries and wages, the costs of pensions and other employee benefits. Staff costs that can be attributed directly to the construction of an asset have been capitalised. Note 7 will not include these amounts as staff costs, as they will be included in the cost base of the relevant asset and are therefore not included in the Statement of Revenue and Expenditure. Average staff numbers are expected to include staff engaged on capital projects.

Staff costs include public service pension scheme costs and exclude pension indexation conversion which, for 2010-11, is disclosed separately as a non-recurring event.

Public service pension scheme costs, other than certain minor pension arrangements, are met through a range of funded and unfunded public service pension schemes. Public service pension scheme costs include current service costs and past service costs. Current service costs are the increase in the present value of the scheme liabilities included in WGA arising from current members' service in the current period. Past service costs are increases/decreases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change or improvement to retirement benefits.

The state pension is included within social security benefit expenditure.

1.12.3 Grants and subsidies

Grants and subsidies are recorded as expenditure during the period that the underlying event or activity giving entitlement to the grant occurs. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Statement of Revenue and Expenditure on the basis of estimates of claims not received and are included in accruals in the Statement of Financial Position.

1.12.4 Research and development

Expenditure on research and development is charged to the Statement of Revenue and Expenditure in the year in which it is incurred, unless it meets the criteria set out under IAS 38 '*Intangible Assets*', in which case it is capitalised.

1.12.5 Value Added Tax

Many of the activities of government are outside the scope of Value Added Tax (VAT) and, in general, output tax does not apply and input tax is not recoverable. Irrecoverable VAT is charged to the Statement of Revenue and Expenditure and included as part of the cost of the transaction under the heading relevant to the type of expenditure, or is included in the capitalised purchase cost of the asset in the Statement of Financial Position.

Where output tax is charged and input VAT is recoverable, the amounts are stated net of VAT. The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within receivables and payables within the Statement of Financial Position.

1.12.6 Finance costs

Interest costs are recognised on an accruals basis using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the asset or liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, such as premiums or discounts on acquisition or issue.

Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

1.13 Non-current assets

1.13.1 Property, plant and equipment

Property, plant and equipment, unless otherwise stated, are carried at cost on initial recognition and then at current cost or on a depreciated historical cost basis as a proxy for current cost. Council dwellings are valued at the existing use value for social housing.

The threshold for capitalising non-current assets is set by each entity as appropriate to their circumstances and disclosed in the accounting policy note in their accounts. Central government departments typically have a capitalisation threshold of £5,000, other than the Ministry for Defence which has a capitalisation threshold of £25,000.

Strategic goods held for use in national emergencies are held as non-current assets within property, plant and equipment. These inventories are maintained at minimum capability levels by replenishment to offset write-offs and so are not depreciated. Revaluations of stockpiled goods included in property, plant and equipment are taken to the Statement of Revenue and Expenditure rather than the revaluation reserve.

Land and buildings are professionally valued at regular intervals or when material changes are known to have arisen, and are subject to interim internal reviews.

Gains on revaluation are taken to the revaluation reserve. Losses on revaluation are debited to the revaluation reserve to the extent that gains have been previously recorded, and otherwise to the Statement of Revenue and Expenditure. On sale of the asset, any remaining balance in the revaluation reserve is released to the Statement of Revenue and Expenditure.

1.13.2 Infrastructure assets

Infrastructure assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised and do not have alternative uses;
- they are immovable; and

- they may be subject to constraints on disposal.

Infrastructure assets will include road networks, sewer systems, water and power supply systems and communications networks.

Strategic Road Network

The road network infrastructure asset consists of carriageways, structures, land and communication equipment which form a single integrated network. The network infrastructure is intended to be maintained at a specific level of service potential by continual replacement and refurbishment. The assets are specialised and therefore are valued at gross replacement cost in accordance with the FReM before applying depreciation. The gross replacement cost is calculated as if providing a replacement asset, on a 'green-field' site, constructed to modern build standards and then depreciated to take account of the condition of the network.

External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using recent schemes actual cost and physical assets records to provide unit rates for all elements and components of the network. Between full valuations, the values are adjusted using indices. These are applied to the valuation of the network to ensure the final valuation is at current replacement cost. The valuation of the network is based upon a non recoverable VAT rate of 20 per cent which reflects a consistent long-term approach to valuing the network. Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost. Road surfaces are subject to an annual condition survey.

Local Authority Infrastructure

Local authority infrastructure assets are included in the Statement of Financial Position at historical cost less depreciation.

Infrastructure assets include highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical cost basis compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation on a depreciated replacement cost basis for inclusion in the 2012-13 Whole of Government Accounts.

Transport for London (TfL) Infrastructure

Transport for London (TfL) infrastructure consists of roads, tunnels, viaducts, bridges, stations, track, signalling, bus stations and stands, properties attached to infrastructure which are not separable from infrastructure, and properties attached to infrastructure which are used to facilitate the service provision but are limited in use by operational constraints. These are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items was determined by reference to a previous GAAP revaluation as deemed cost at 1 April 2009 when TfL first adopted IFRS.

Scottish Water Infrastructure

Scottish Water infrastructure assets comprise a network of water and waste water systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets, with the exception of land, are subject to depreciation. Assets are valued at depreciated replacement cost.

1.13.3 Assets under construction

Assets under construction are shown at accumulated cost with depreciation commencing when the asset is completed and brought into service.

1.13.4 Military equipment

Military equipment comprises non-current assets used by the military for which there is no civilian use. It includes items such as tanks, fighter aircraft and warships. It is initially recognised as a tangible non-current asset at its direct purchase or production cost and depreciated over its useful economic life. In all other respects it is treated in the same way as other non-current asset categories. Development expenditure on military equipment, which meets the capitalisation criteria set out in accounting policy note 1.13.1 is capitalised as an intangible asset.

1.13.5 Heritage assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical value. Heritage assets include historic buildings, archaeological sites, monuments, statues, the national archives, military and scientific equipment of historic importance, museum and gallery collections and works of art. They are included in 'Furniture, Fittings and Other' in the property, plant and equipment note (Note 14).

Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings). They are valued and depreciated in the same way as other assets of that general type, for example buildings.

Non-operational heritage assets are those that are held primarily in pursuit of an entity's overall objective to maintain them, such as works of art. Non-operational heritage assets acquired before 1 April 2000 (2001 for NDPBs) are generally not capitalised. All non-operational heritage assets acquired since 1 April 2001 have been capitalised and recognised in the Statement of Financial Position, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated as they are considered to have no determinable useful life, nor are they revalued as a matter of routine, although they are subject to impairment reviews where damage or deterioration is reported.

1.13.6 Community assets

Community assets are non-current assets held by an authority in perpetuity that have no determinable useful life and may have restriction on their disposal, such as parks and open spaces, historic buildings, works of art etc. They are primarily held for their historic and cultural value. Local community assets are generally included at cost or nominal value in the Statement of Financial Position under Other Assets. Local authorities value community assets at depreciated historical cost. They are included in 'Furniture, fittings and other' in the property, plant and equipment note (Note 14).

1.13.7 Donated assets

The category 'Donated assets' includes both assets that have been donated and assets for which the WGA entities have continuing and exclusive use but do not own legal title and for which they have not given consideration in return. They are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets. They are included in 'Furniture, Fittings and Other' in the property, plant and equipment note (Note 14).

The donated assets reserve is included in 'other reserves' in the Statement of Changes in Taxpayers' Equity and represents the value of the original donation, additions and any subsequent professional revaluation and indexation. Amounts equal to the donated asset depreciation charge, impairment costs and any in-year surplus/deficit on disposal are released from this reserve to the Statement of Revenue and Expenditure.

1.13.8 Government granted assets

Government grants of assets are assets granted from Government entities, other than from funds awarded by Parliamentary Vote or funds from NHS entities, where these have not been eliminated (see

note 1.22.2). Such government grants in respect of capital expenditure are credited to the general reserve and are released to the Statement of Revenue and Expenditure over the expected useful lives of the relevant assets by equal annual instalments.

1.13.9 Investment properties

An asset is recognised as an investment property when the property (land or buildings) is held to earn rent revenue or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. After initial recognition, investment properties are measured at fair value. A gain or loss arising from a change in fair value or arising from disposal of the investment property is recognised in the Statement of Revenue and Expenditure.

1.13.10 Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Software that is embedded in computer-controlled equipment that cannot operate without that specific software is an integral part of the related hardware and is treated as property, plant and equipment.

Intangible assets are measured on initial recognition at cost. The capitalisation threshold for expenditure on intangible assets is determined by each WGA entity as appropriate to their circumstances. Following initial recognition, where an active market exists, intangible assets are carried at fair value at the Statement of Financial Position date. Where no active market exists, published indices may be used to assess the depreciated replacement cost as a proxy for fair value. The useful lives of intangible assets are assessed to be either finite or indefinite and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end.

Computer software licences with a useful life in excess of one year are capitalised as intangible non-current assets. These are impaired when events or changes in circumstances indicate the carrying value may not be recoverable. Software licences are amortised over the shorter of the term of the licence and the useful economic life, which is usually between three and ten years.

1.13.11 Assets held for sale

Assets 'held for sale' are valued at the lower of carrying value and fair value, less cost to sell. They are not subject to depreciation.

1.13.12 Depreciation and amortisation charged

Charges are made to the Statement of Revenue and Expenditure for the consumption of tangible non-current assets (as depreciation) and intangible non-current assets (as amortisation). The depreciation or amortisation charged is calculated to write down the cost or valuation of the asset to its residual value over its estimated useful economic life.

Freehold land, assets under construction or development, investment properties, stockpiled goods, non-operational heritage assets and assets held for sale are not depreciated or amortised.

Otherwise, depreciation and amortisation are charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, mainly on a straight-line basis over their estimated remaining useful lives. The estimated useful life of an asset is the period over which an entity expects to obtain economic benefits or service potential from the asset. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

The depreciation period varies from one WGA entity to another depending on the estimate of the useful life of assets. Generally, assets are often depreciated across the following depreciation periods:

<u>Asset group</u>	<u>Depreciation period</u>
Freehold buildings	up to 50 years or estimated useful economic life
Leasehold improvements	shorter of term of lease or estimated useful economic life
Military equipment	varies according to estimated useful economic life
Office machinery and equipment	up to 5 years
Computer equipment	3-10 years
Telecommunication equipment	3-10 years
Furniture, fixtures and fittings	5-10 years
Plant and machinery	5-10 years
Council dwellings	in line with local authorities' Major Repairs allowance value

1.13.13 Infrastructure assets depreciation

Strategic Road Network

Network infrastructure assets and definable components with determinable finite lives are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis over 20 to 120 years. Freehold land, the sub-pavement layer of long-life pavements, and earthworks are considered to have an indefinite life and are not depreciated. Road surfaces are subject to an annual condition survey and any movement in the condition is taken to the Statement of Revenue Expenditure as a depreciation charge or improvement credit.

Local Authority Infrastructure

Assets are depreciated on a straight line basis over their estimated useful lives, these being periods typically between 20 and 40 years.

Transport for London (TfL) Infrastructure

Assets are depreciated on a straight-line basis over their estimated useful lives, which are reviewed regularly, and which for the major categories fall in the following ranges:

<u>Asset Group</u>	<u>Depreciation period</u>
Tunnels and embankments	up to 100 years
Bridges and viaducts	up to 100 years
Track	up to 50 years
Road pavement	up to 15 years
Road foundations	up to 50 years
Signalling	15 to 40 years
Stations	up to 50 years

Scottish Water Infrastructure

Assets are depreciated on a straight-line basis over their estimated useful lives, these being periods typically between 80 and 150 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

1.14 Current assets

1.14.1 Inventories

Inventories are valued at cost or, where materially different, current replacement cost. A net realisable valuation is used only when inventory either cannot or will not be used. Work in progress is valued at the lower of cost and net realisable value.

1.14.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts are included within trade and other payables in the Statement of Financial Position.

1.14.3 Gold holdings

Gold holdings comprise gold holdings and gold assets on deposit. They are recognised in the Statement of Financial Position and measured at fair value. Gold holdings and gold assets on deposit are valued at the sterling equivalent of the London Bullion Market Association dollar denominated spot price as at the end of the reporting period. Revaluation gains and losses on gold assets are recognised within fair value changes of gold in the Statement of Revenue and Expenditure as other revenue.

1.15 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the effective interest rate at the reporting date. The value of receivables is shown after a provision for irrecoverable debts. The provision is based on objective evidence that not all amounts will be able to be recovered, through a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the provision are recognised in the Statement of Revenue and Expenditure.

1.16 Leases

Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases in accordance with IAS 17 'Leases'.

Where a WGA entity is the lessor under an operating lease, assets subject to operating leases are included in the Statement of Financial Position according to the nature of the assets. Rental income from operating leases, excluding charges for services such as insurance and maintenance, are recognised on a straight-line basis over the period of the lease, even if the payments are not received on this basis (e.g. due to lease incentives), unless another systematic and rational basis is more representative of the time pattern in which the benefits derived from the leased asset are diminished, and amounts due under the operating lease at year end are treated as amounts receivable. Leasehold improvements are capitalised and the cost amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

Where a WGA entity is the lessee under an operating lease, rentals payable, net of benefits received or receivable (e.g. cash incentives for a lessee to sign a lease), are charged to revenue on a straight-line basis over the term of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the benefits received.

Finance leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessee are classified as finance leases in accordance with IAS 17 'Leases'. Where the risks and rewards of ownership of a leased asset are substantially borne by a WGA entity, the asset is recognised on the Statement of Financial Position at the discounted present value of the total rentals payable during the primary period of the lease. The corresponding leasing commitments are shown as obligations to the lessor. The capitalised values are amortised over the period in which the WGA entity expects to receive benefits from their use.

Where a WGA entity is the lessor under a finance lease, amounts due from the lessees are recorded in the Statement of Financial Position as a receivable at the amount of the net investment in the lease. The lease payments receivable are apportioned between repayment of the receivable and finance income. The finance income is credited to revenue and calculated so as to give a constant periodic rate of return from the net investment.

1.17 Private Finance Initiative (PFI) transactions

Under a private finance initiative (PFI) transaction or service concession, a WGA entity contracts with a private sector entity to develop, finance, operate and maintain infrastructure, to deliver services directly or indirectly to the public. Under such arrangements, where the WGA entity controls or regulates those services and controls any significant residual interest in the infrastructure they are included in the Statement of Financial Position. Services indirectly provided to the public include those related to assets held for administrative purposes, and which are used in the delivery of services to the public.

PFI transactions that meet the definition of a service concession arrangement are accounted for in accordance with the FReM. The service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (IFRIC 12.3). Where the balance of risks and rewards of ownership of the PFI property is borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the balance is borne by the Government, PFI transactions are recognised as an asset, with related liabilities. The asset is accounted for in a manner consistent with other assets of that type. Interest on the liability and expenditure on services provided under PFI transactions are recognised in the Statement of Revenue and Expenditure as they accrue. Unitary Charges are apportioned between three elements: an element to pay for services; an element to pay interest on the liability and an element to repay the initial liability.

Where, at the end of the PFI transaction, all or part of the property reverts to a government entity for a specified value, the difference between the expected fair value of the residual asset on reversion at the start of the contract and any agreed payment on reversion is built up over the life of the contract, and included in the Statement of Financial Position as a non-current asset. This is to ensure proper allocation of payments between the cost of services under the contract and acquisition of the residual interest. Capitalisation of residual interest is included within Assets under Construction.

1.18 Provisions

A provision is recognised when the following three criteria are met: there is a present obligation (either legal or constructive) as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Obligations are reviewed on a regular basis and provisions are updated accordingly.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of a provision is discounted to the present value of the expenditures expected to be required to settle the obligation. Non-current provisions such as the provision for nuclear decommissioning are therefore expressed at current price levels and discounted at 2.2 per cent per annum (2009-10: 2.2 per cent), being the Government's long term cost of borrowing, to take account of the time value of money over long timescales. The year on year changes to the discount rate are charged through the Statement of Revenue and Expenditure.

Where some or all of the expenditure required to settle a provision is expected to be recovered from a third party the recoverable amount is treated as a non-current or current asset. Provision charges in the Statement of Revenue and Expenditure are shown net of changes in the amount recoverable from customers. Provision changes are accounted for in the year in which they arise.

1.19 Pension costs and public service pension liability

The pension liability only relates to public service pension liabilities for employees and former employees of the public sector, with a small component for other approved organisations that qualify for membership of these government schemes.

State retirement pensions are paid to the general public, and are not employee benefits for public sector staff. State pensions are contributory benefits paid in accordance with Government policy and are expensed as incurred (Note 6). Future state pension benefits are not recognised as a liability as they are only entitled to be paid as they fall due.

Past and present employees are covered by the provisions of a range of pension schemes. The public sector has defined benefit pension schemes that are either unfunded and non-contributory (except in respect of dependants' benefits), or funded and majority of which are contributory. In respect of defined contribution schemes, the Government recognises the contributions payable for the year.

Funded schemes are shown on the Statement of Financial Position on a net basis taking account of scheme assets and scheme liabilities. Scheme assets are carried at fair value as at the end of the reporting period. Where the scheme requires the employer to fund any deficit of assets compared to liabilities these are shown as contributions over and above the current service charge.

Liability for payment of future benefits is a charge on the schemes. Scheme liabilities are measured on an actuarial basis using the projected unit method – i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees. Liabilities are discounted to their value at current prices using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes use a real discount rate, while local government schemes use the rates determined by independent actuaries.

The Government 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 schemes of amounts calculated on an accruing basis.

All movements in the liability, except actuarial gains and losses, are recognised in the Statement of Revenue and Expenditure in the period in which they occur. Actuarial gains and losses are accounted for through reserves as required by the FReM. Obligations for contributions to defined contribution pension schemes are recognised in the Statement of Revenue and Expenditure as they fall due. The accruing cost of pension rights in respect of current employees is recognised as an increase in the level of provision for pension liabilities. Pension expenditure in respect of former employees is recognised as a decrease in provision.

Certain minor schemes, such as pensions for some locally engaged staff overseas, are administered and accounted for on a pay as you go basis as the cost of actuarial valuation would outweigh the benefits.

Further details regarding the principal schemes are disclosed in Note 27 to this Account.

1.20 Financial instruments

1.20.1 Financial assets

Financial assets are classified into the following four categories:

- Financial assets at fair value through profit or loss;

- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale assets.

The classification depends on the purpose for which the financial asset is held or acquired. The financial assets held are in the following categories:

Financial assets at fair value through profit or loss (or Statement of Revenue and Expenditure)

Financial assets classified as 'fair value through profit or loss' are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Revenue and Expenditure. A financial asset is classified as 'fair value through profit and loss' if acquired principally for the purpose of trading in the short term. It may also be classified into this category if the accounting treatment results in more relevant information because it significantly reduces an accounting mismatch with related liabilities. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the Statement of Revenue and Expenditure. Transaction costs are expensed as they are incurred.

Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, where there is a positive intention and ability to hold to maturity. After initial recognition, held-to-maturity financial assets are held at amortised cost using the effective interest method, less any impairment.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables comprise cash and cash equivalents, receivables and loans, including student loans. After initial recognition, they are carried at amortised cost.

When an asset is deemed to be impaired or derecognised, the associated gains and losses are recognised in the Statement of Revenue and Expenditure.

Available-for-sale assets

These are non-derivative financial assets classified as 'available-for-sale' or not classified in any of the other three categories of financial assets. After initial recognition, these financial assets are carried at fair value. Gains and losses, in fair value, are recognised directly to equity except for impairment losses. Impairment losses are recognised in the Statement of Revenue and Expenditure. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Revenue and Expenditure. In accordance with the FReM, public bodies that are held as available-for-sale financial assets are carried at historical cost less any impairment recognised. For these purposes, public bodies include Northern Rock plc, Northern Rock Asset Management plc, Bradford & Bingley plc, UK Financial Investments Limited and UK Asset Resolution.

Accounting treatment

The table below summarises the accounting treatment for different financial asset types.

Financial asset type	Accounting treatment
Trade and other receivables	Accounted for as loans and receivables at book value.
Student loans	Accounted for as loans and receivables at amortised cost, reflecting impairments.
Loans and deposits with banks	Accounted for as loans and receivables at amortised cost or as held to maturity investments at amortised cost.
Equity investments	Typically accounted for at fair value through profit and loss.
Equity investments in non-public entities where there is no observable market	Estimated as the net asset value per the published accounts of the investee entities.
Equity investments in the public sector banks	Accounted for as available for sale assets at historical cost less impairments.
Debt securities	Accounted for at fair value as held for trading.
Holding of IMF Special Drawing Rights	Accounted for at fair value as held for trading.
IMF Quota Subscription	Accounted for as loans and receivables at amortised cost.

1.20.2 Financial liabilities

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss; and
- Other financial liabilities.

The classification depends on the purpose for which the financial liability is held or acquired. Management determines the classification of financial liabilities at initial recognition.

Financial liability type	Accounting treatment
Government financing and borrowing, comprising gilts, Treasury bills and National Savings & Investment products	Accounted for at amortised cost.
Trade and other payables	Accounted for at amortised cost.
Deposits by banks, comprising sale and repurchase agreements	Accounted for at amortised cost.
IMF Special Drawing Rights allocation	Accounted for at fair value.
Financial guarantees	Accounted for at fair value on recognition and subsequently at the higher of amortised cost or the best estimate of the probable expenditure required to settle financial obligations at the reporting period end.

1.20.3 Impairments

At the reporting date, financial assets, other than those held at fair value through the Statement of Revenue and Expenditure are assessed for impairments. Financial assets are impaired and impairment

losses are recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset, for example the impairment of a loan as a result of subsequent events.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Revenue and Expenditure and the carrying amount of the asset is reduced directly, or through a provision for impairment of receivables. If, in a subsequent period, the amount of the impairment loss decreases in relation to an event occurring after the initial impairment was recognised, the loss is reversed through the Statement of Revenue and Expenditure to the extent that the carrying amount at the date of the impairment is reversed and does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for Available For-Sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Revenue and Expenditure – is removed from equity and recognised in the Statement of Revenue and Expenditure. Impairment losses recognised in the Statement of Revenue and Expenditure on equity instruments are not reversed until the asset is derecognised.

1.20.4 Student loans

Recognition of student loans issued and repayments

Student loans are recognised when the loan is issued to the student. For maintenance loans, no obligations fall due at the Statement of Financial Position date, but for tuition fee loans, an asset is recognised when there is an obligation to pay the tuition fee on behalf of the student. The asset is impaired in the same way as if it was an addition to the student loan book, with a charge to expenditure to reflect the cost to the Government of issuing the loans.

Student loan repayments are collected by the Student Loans Company (SLC) and Her Majesty's Revenue and Customs (HMRC). Repayments made via the SLC are recognised when the SLC has received the cash and updated the borrower record. Repayments collected via the tax system are recognised based on amounts which HMRC estimate as being due to the Department for the financial year.

Measurement and carrying values

Student loans are held at amortised cost and accounted for in accordance with IAS 39 '*Financial Instruments: Recognition and Measurement*'. The gross value of the loans issued is discounted to net present value using the effective interest rate which for student loans is RPI plus the Government's long term cost of borrowing, 2.2 per cent.

The value of student loans issued is also reduced based on an estimate of the future cost of policy write offs. This reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student.

The valuation of the student loans requires management to make judgements, estimates and assumptions. These are disclosed in 1.22.8.

Accounting for the potential sale of student loans

The Government is continuing to assess how best to manage its holding of current and future income contingent repayment loans, including the potential to realise value for the taxpayer from a sale of its portfolio. These accounts present the student loans portfolio valued on the basis that they will continue to be held by the Government until such time as a decision to sell the assets has been made. The valuation basis reflects the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* to hold the loans at amortised cost. When the sale takes place, it will be necessary to re-assess the basis for the carrying value, in accordance with the relevant accounting standards, noting that, as stated in Note 38, WGA does not restate for post-balance sheet events.

1.20.5 IMF Special Drawing Rights

The UK's Quota Subscription to the International Monetary Fund (IMF) is recognised as a financial asset carried at amortised cost. Part of the Subscription is deposited by the IMF in the National Loans Fund in return for sterling non-interest bearing securities which are recognised as financial liabilities, as loans and receivables. In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, these financial assets and liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The IMF Quota Subscription is denominated in Special Drawing Rights (SDRs), the IMF's unit of account, and is recognised in the Statement of Financial Position in sterling, converted at the SDR exchange rate published by the IMF at the year end.

The UK's allocation of SDRs by the IMF in proportion to the UK's Quota Subscription is recognised as a financial liability to the IMF, and the resultant holding of SDRs is recognised as a financial asset. In accordance with IAS 39, the SDR allocation and SDR holdings are classified as "held for trading" financial assets and liabilities, and are measured at fair value with gains and losses being taken through the Statement of Revenue and Expenditure. They are recognised in the Statement of Financial Position in sterling, converted at the SDR exchange rate published by the IMF at the year end.

Any interest receivable in SDR is recognised in interest revenue in the Statement of Revenue and Expenditure at the exchange rate prevailing on the date of receipt.

1.20.6 Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified repayments to reimburse the holder for a loss as it incurs, because a specified receivable fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are recognised initially at fair value. After initial recognition, they are recognised at the higher of amortised cost or the amount required to be recognised under IAS 37. Any increase in the liability relating to guarantees is taken to the Statement of Revenue and Expenditure.

Market participants typically value such contracts based on the reduction in risk to the lender provided by the guarantee, as reflected by the improvement in credit terms to the borrower, typically the reduction in interest payable by the borrower. Where the contract specifies the fee payable to an entity, and there is reasonable evidence that the fee was calculated on this basis, the guarantee is valued at the net present value of the fee.

1.20.7 Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. Derivatives that are not designated for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the Statement of Revenue and Expenditure.

1.20.8 Hedging

Entities apply hedge accounting after considering the costs and benefits of adopting hedge accounting, including: whether an economic hedge exists and the effectiveness of that hedge; whether the hedge accounting qualifications could be met; and the extent to which it would improve the relevance of reported results.

At the time a financial instrument is designated as a hedge, these entities formally document the relationship between the hedging instruments and the hedged items, including its risk management objectives and its strategy in undertaking the hedge transaction together with the methods that will be used to assess the effectiveness of the hedging relationship. Both are formally assessed at the inception of the hedge and on an ongoing basis, to determine whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. Hedges can be designated as a fair value hedge or cash flow hedge. For fair value hedges, changes in fair value of the hedged item are recognised in the current period to offset the recognition of changes in fair value of the hedging instrument. For cash flow hedges and net investment hedges, the effective portion of changes in the fair value is recognised in equity and any gain or loss relating to the ineffective portion is recognised immediately in the Statement of Revenue and Expenditure. Amounts accumulated in equity are recycled in the Statement of Revenue and Expenditure in the periods when the hedged item is effective. The gain or loss relating to the effective portion of forward currency contracts is recorded in the Statement of Revenue and Expenditure.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Revenue and Expenditure. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Revenue and Expenditure.

1.21 Contingent liabilities and contingent assets

Generally, contingent liabilities and contingent assets are not recognised as liabilities or assets in the Statement of Financial Position, but are disclosed in the notes to the accounts.

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by uncertain future events or present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably measured. A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Where the time value of money is material, the contingent liabilities and assets are stated at discounted amounts.

In addition, central Government departments are required to report to Parliament contingent liabilities for which the risk of crystallisation is remote. These are disclosed in Note 33. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'* since the likelihood of a transfer of economic benefit in settlement is too remote. As they do not fall within the scope of IAS 37, they are measured following the requirements of IAS 39 *'Financial Instruments: Recognition and Measurement'* for financial instruments. Financial liabilities are measured initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability. This is different from the measurement requirements of IAS 37 as it does not take account of the best estimate of the expenditure required to settle the obligation as set out in IAS 37. The technique used to determine the best estimate will vary depending on the nature of the contingent liability, and the level of uncertainty surrounding the

amount to be recognised. Consequently, the best estimate under IAS 37 might represent a percentage of the fair value of a contingent liability, or some measure other than fair value which represents the expenditure required to settle the obligation.

1.22 Critical accounting estimates and judgements

1.22.1 WGA boundary

The Government Resources and Accounts Act (GRAA) requires HM Treasury to prepare WGA for “a group of bodies each of which appears to HM Treasury— (a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money”. HM Treasury’s decisions apply the GRAA and the FReM, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics (ONS). This is because the ONS consider the factors listed in the GRAA when making their classification decision as well as the degree of control that government has over each entity. ONS independently assesses the classification of entities using ESA 95, which is the European standard of classification, derived from the worldwide definitions held in the System of National Accounts. ESA 95 considers the nature of the activity performed by the entity, its funding and its relationship to Government. Aligning the boundary of WGA with that of the public sector as defined for the National Accounts is an important principle in driving the usefulness of WGA. The scope of WGA is similar to those included to produce other fiscal measures. This enables WGA to complement existing data and be a tool to support macro-economic management of the UK’s finances.

There are a small number of entities that could satisfy the GRAA definition but are not included in WGA because, while they are accountable to their respective parliaments or assemblies, they are not responsible to an executive arm of the government, and therefore do not form part of “government”. These are listed in Annex 2.

There are a number of financial institutions that could satisfy the GRAA definition but are not included in WGA at this time:

- Northern Rock (Asset Management) plc and Bradford and Bingley are proposed to be consolidated into WGA from 2013-14, as they are expected to be a permanent part of government until their mortgage books have expired.
- the remaining banks will continue to be held as available-for-sale financial assets and liabilities. These entities are not consolidated in WGA because their scale would dwarf other aspects of WGA, distorting the accounts and therefore making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of the remaining banks in the long term and, in due course, they will return to the private sector. It would also be extremely costly to carry out the consolidation (mostly because of differing year-ends), which does not represent good value for the taxpayer, given the expected temporary nature of their ownership.

Minor entities that would satisfy the GRAA definition are not included in WGA because they are considered too small to be consolidated within WGA. In order to be minor, they must satisfy certain criteria, for example gross expenditure of less than £10 million, which are reviewed annually to determine whether they should be consolidated or not. These are listed in Annex 3. Academies that received less than £5 million annualised funding or which opened in the last two months of the reporting period were also treated as minor bodies and excluded.

1.22.2 Consolidation judgements: elimination threshold of £1 million

When the consolidated accounts are prepared, only transaction streams and balances between WGA entities above £1 million are eliminated. WGA entities are required to report transaction streams and balances that are above £1 million with any counterparty within the WGA boundary. The £1 million threshold applies to the aggregate for each type of balance or transaction stream with a counterparty.

For example, if an entity has a number of debtor balances with a counterparty which are each below £1 million but when aggregated exceed £1 million, then the aggregate balance is required to be reported. HM Treasury reviews the appropriateness of the £1 million threshold annually.

1.22.3 Consolidation judgements: revenue from sale of 3G licences

In 2000, the Government sold five licences via auction for the use of the electromagnetic spectrum for 3G mobile phone services. The auction raised £22.5 billion and all successful bidders paid for their licences up front in return for access to the spectrum for a period of 20 years. In accordance with the requirements of IAS 18 'Revenue', these accounts have recognised the revenue in full at the time of cash receipt. This is because there are no additional ongoing performance obligations on the government under the terms of the contracts. As IAS 18 requires the recognition of revenue so as to match the pattern in which obligations are satisfied, it would be inappropriate to defer the revenue.

1.22.4 Estimating taxation revenue

Estimates of taxation revenues are based on different methods, depending on the type of tax. The estimate for accrued Corporation Tax receivable for large onshore and North Sea companies uses a model based on instalment payments. No estimate is made for smaller companies who are not required to pay in instalments. The estimate of the self-assessment accrued revenue receivable for Income Tax and National Insurance Contributions is based on historical receipts and liabilities and adjusted using economic assumptions underlying forecasts. Estimation of accrued VAT payables and receivables are primarily based on VAT receipts and returns received after the year end from taxpayers. When the period covered by a return straddles 31 March, the tax or duty is deemed to accrue evenly over the period covered by the return and apportioned between years accordingly. Minor tax streams are accrued for on the basis of transactions completed by 31 March but for which the tax has not been received.

The estimates of taxation revenue are calculated using statistical models based on a combination of projections derived from the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what is believed to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not indicative of deficiencies in the models. The maximum likely overall uncertainty is expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue and Expenditure. This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgment of professional economists and statisticians with substantial experience of tax forecasting. This uncertainty has, however, led to the Comptroller and Auditor General to make an Emphasis of Matter statement in his Audit Opinion on HMRC's 2010-11 Trust Statement.

1.22.5 Key assumptions in determining the pension liability

The pension liability of £960 billion (2009-10: £1,135 billion) is measured on an actuarial basis using the projected unit method – i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes typically use a real discount rate of 2.9 per cent, based on yields of high quality corporate bonds, determined by those responsible for the management of the individual pension fund considering advice from the Government Actuary. Local government schemes use a nominal rate determined by independent actuaries, typically varying between 5.4 and 5.6 per cent. Unlike the central government pension schemes, the assumptions used for the local government, police, and firefighters pension

schemes vary for each fund. The discount rate used is based on the administering authority's judgement as to the rate required under accounting standards. Other assumptions are set on the advice of each administering actuary and represent the actuary's best estimates of the specific future conditions each scheme will face.

Key assumptions in determining the pension liability include: rate of increase in salaries, rate of increase in pensions in payment, discount rate and inflation assumption.

	Central Government ¹		Local Government ²	
	2010-11	2009-10	2010-11	2009-10
	%	%	%	%
Rate of increase in salaries	2.3	4.3	1.0-5.4	1.75-5.8
Rate of increase of pensions in payment ³	-	-	2.45-7.1	1.75-7.3
Discount rate – real	2.9	1.8	-	-
Discount rate - nominal	-	-	5.4-5.6	5.5-5.8
Inflation assumption	2.65 ⁴	2.75 ⁴	2.45-3.9	1.75-4.0

1. Central government includes PCSPS, NHS pension schemes, armed forces pension schemes and teachers pension schemes.
2. Local government includes the local government pension schemes, police pension schemes and firefighters pension scheme, with the exception of the police and fire schemes in Northern Ireland as they are administered by central government and apply the central government assumption rates.
3. Rate of pensions in payment is not shown for central government as this was not collected for WGA and is not consistently disclosed in the assumptions table within the underlying accounts of the key schemes.
4. Inflation assumption in 2010-11 was based on CPI and in 2009-10 was based on RPI.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The assumption that has the biggest impact on the amount of the reported liabilities is the discount rate, net of price inflation. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. The inflation assumption in 2010-11 reflects the long-term assumption for the Consumer Prices Index (CPI) used in Treasury forecasting at that time. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

These key assumptions apply to the significant majority of the schemes that make up the WGA pension liability. A small proportion of entities that have a pension liability that feeds into WGA may use different assumptions to those above. The assumptions for those smaller schemes are not disclosed given their relative immateriality to the pension numbers as a whole.

1.22.6 Provision for nuclear decommissioning

The financial statements include a provision for the Government's obligations in respect of nuclear liabilities of £60.9 billion (2009-10: £56.7 billion), to cover the costs associated with the nuclear decommissioning of sites of radioactive plant and facilities. The majority of this provision is recognised by the Nuclear Decommissioning Authority (NDA).

NDA's provision for nuclear decommissioning represents the best estimate of the costs of delivering its objective of decommissioning the plant and equipment on designated nuclear licenced sites and returning them to pre-agreed end states in accordance with the published strategy. This programme of work will take until 2137. The estimates are necessarily based on assumptions of the processes and methods likely to be used to discharge the obligations, reflecting a combination of the latest technical knowledge available, the requirements of the existing regulatory regime, Government policy and commercial agreements. Given the very long timescale involved, and the complexity of the plants and

material being handled, considerable uncertainty remains in the cost estimate particularly in the later years, although this is in part mitigated by the impact of discounting for the purposes of provision calculation. In addition, as part of the preparation of the financial statements, the principal assumptions and sensitivities for the cost estimates were updated and reviewed by the NDA executive and, where appropriate, updates to the estimates were made to reflect changed circumstances and more recent knowledge. However, it is recognised that there remains a significant degree of inherent uncertainty in the future cost estimates, and this uncertainty has led the Comptroller and Auditor General to include an Emphasis of Matter statement in his Audit Opinion on the Nuclear Decommissioning Authority's 2010-11 accounts. Further details of the potential range of possible outcomes around a central best estimate of provision are available in NDA's 2010-11 accounts.

1.22.7 Loans to financial institutions

The Government has made loans and advances of £55 billion (2009-10: £57 billion) to financial institutions, which may result in impairment losses. The accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.20.1. The allowance for impairment losses on loans and receivables from public sector banks is based on an estimate of losses incurred at the reporting date.

All loans are individually assessed for impairment. HM Treasury considers whether objective evidence indicates that one or more events, occurring after the loan or advance was made, have an effect on the estimated future cash flows. This objective evidence includes estimates from administrators on the level and timings of repayments, (for example, reports from the administrators of Heritable Bank, Icesave, Kaupthing Singer & Friedlander, and Dunfermline), negotiations with banks or other governments (DIGF) and business plans provided by banks under public ownership (Northern Rock, Bradford & Bingley). For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 42 to 100 per cent. As an indicator of the sensitivity within this estimate, the current impairment charge of £26 million on statutory debt would increase by approximately £197 million, if the recoverability of the loans were 10 percentage points lower than those estimated by the administrators as at 31 March 2011.

Impairments are also recognised to reflect interest free loans which have been provided to Bradford & Bingley, Heritable Bank, Icesave, Kaupthing Singer & Friedlander, London Scottish Bank and Dunfermline to fund repayment of retail deposits above £50,000 (above £35,000 for Bradford & Bingley). The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's effective interest rate. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

1.22.8 Student loans

The Government has made loans to students which are valued on the Statement of Financial Position at £29.6 billion (2009-10: £27.6 billion). The valuation does require management to make critical accounting judgements, estimates and assumptions. A valuation technique is used to estimate the present value of future cash flows, and the outputs of this modelling provide the basis for the net present value calculations and the estimate of irrecoverable amounts due to policy decisions. The Government considers that the carrying value is a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions. The key assumptions and modelling used to calculate the student loan balance are detailed in the 2010-11 accounts of the Department for Business, Innovation and Skills.

During 2010-11, the Government changed the way in which it estimates future cash flows by modelling the impact of students' accounts accruing less interest due to the effect of the 'base rate cap', when the

Bank of England Base Rate plus 1 per cent is lower than RPI. It results in the student loan subsidy being higher than expected and that less cash is received in the future than was originally anticipated. This has led to an adjustment to the net present value of estimated future cash flows of £1.5 billion in 2010-11.

The Government also took the decision to use the latest Office for Budget Responsibility (OBR) short term forecasts for earnings growth and RPI and to use more up to date information to derive a best estimate of future cash flows. The model for determining student loan repayments was also revised. The combined effect of changes in assumptions and modelling for the financial year led to an adjustment to the carrying value of loans of £1.1 billion.

1.22.9 RBS contingent capital

A contingent capital commitment has been issued to Royal Bank of Scotland (RBS) for subscribing up to £8 billion of B shares if RBS's capital adequacy ratio (CAR) falls below 5 per cent. HM Treasury also receives a commitment fee equal to 4 per cent of the un-utilised commitment. In accounting for this instrument, the guidance in the FReM has been applied in determining whether it fulfils the criteria for recognition as a derivative, which is that the variables changing the value of the contract must be financial variables and any non-financial variable must not be specific to one party to the contract. In exercising its judgement HM Treasury has determined that CAR is a non-financial variable specific to one party to the contract and therefore the contingent capital does not meet the definition of a derivative. It has been classified as a contingent liability, which will be assessed at every reporting date as to whether a provision for any payout to RBS needs to be made.

1.23 Accounting standards passed but not yet effective

A number of new accounting standards, amendments to standards and interpretations are not yet effective for most of the public sector for the year ended 31 March 2011, and have not been applied in preparing these financial statements. The following are the significant standards and amendments that may need to be adopted in subsequent periods:

- IFRS 9 '*Financial Instruments*', which will replace IAS 39, is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. It is planned that IFRS 9 will be applied initially in 2013-14. IFRS 9 has not been adopted by the EU but will be applicable if it is adopted at a later date. IFRS 9 is being introduced to replace IAS 39 Financial Instruments: Recognition and Measurement. It will impact on these financial statements as the available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9 and will be required to be measured at fair value in the balance sheet, with value changes recognised in profit or loss.
- IAS 24 '*Related Party Disclosures*' has been revised. The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government. Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted. IAS 24 will be applied initially in 2011-12 and is expected to have limited impact on this account.

Note 2. Segmental reporting

The segmental analysis used is central government, local government, financial public corporations and non-financial public corporations, consistent with the sub-sector classification by the ONS. There is one exception: the Welsh Fourth Channel Authority is included as a non-financial public corporation although the ONS has now reclassified it to central government.

Central government

The central government sector comprises:

- central government departments;
- the devolved administrations of Scotland, Wales and Northern Ireland;
- non-departmental public bodies;
- entities in the National Health Service; and
- certain local government functions in Northern Ireland, such as police, education and social services, which are carried out by Northern Ireland departments, non-departmental public bodies and health and social care trusts.

The net pension liability for Central Government also includes the liability for teachers who are employed by local authorities.

Local government

The local government sector comprises:

- all local authorities, police authorities, fire and rescue authorities, national park authorities and waste disposal authorities in England, Scotland and Wales; and
- local authorities in Northern Ireland, with the exception of police, fire, education and social services, which are provided by central government and their costs are shown within central government.

Non-financial public corporations

Entities are included in this sector where:

- they are classified as a market entity – an entity that derives more than 50 per cent of its production cost from the sale of goods or services at economically significant prices. Some charge for regulatory activities where these provide a significant benefit to the person paying the fee;
- they are controlled by central government or local government entities or other public corporations; and
- they have substantial day to day operating independence so that they should be seen as an institutional unit separate from their parent entity.

Financial public corporations

Entities in this sector are similar to non-financial public corporations as described above, but also engage in financial activities and financial transactions on the market. The financial public corporations sector comprises the Bank of England and the Bank of England Asset Purchase Facility Fund Limited.

Consolidation adjustments

In performing the consolidation, transactions and balances between WGA entities have been removed. This means, for example, that income tax shows only the tax due from households and the private and not for profit sectors and does not include national insurance contributions made by public sector employers. However, there are a number of transactions and balances between WGA entities which have not been eliminated because only one party to the transaction has disclosed the transaction. This predominately affects grants expenditure and other income. The potential maximum impact on net deficit and net liabilities because of these items is £2.9 billion (2009-10: £3.2 billion).

Segmental Report

The tables below show the gross amounts reported for each sector and the consolidation adjustments to eliminate transactions and balances between WGA entities. The Central Government total includes central government departments, non-departmental public bodies, devolved administrations, and entities within the NHS including NHS Trusts and Foundation Trusts in England, Welsh NHS Trusts and Health and Social Care Trusts in Northern Ireland.

Segmental reporting analysis 2010-11

	Central government entities	Entities within the NHS	Central government Total	Local government	Non- financial public corporations	Financial public corporations	Consolidation adjustments	Whole of Government 2010-11
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Taxation revenue	(551.4)	-	(551.4)	(49.8)	-	-	85.8	(515.4)
Other revenue	(140.2)	(60.3)	(200.5)	(157.2)	(26.4)	(0.2)	285.7	(98.6)
Total operating revenues	(691.6)	(60.3)	(751.9)	(207.0)	(26.4)	(0.2)	371.5	(614.0)
Staff costs	82.2	40.6	122.8	81.7	10.4	0.2	(22.0)	193.1
Pension past service costs and indexation adjustment	(93.8)	-	(93.8)	(32.1)	(0.1)	-	-	(126.0)
Other expenses	773.0	22.2	795.2	152.7	15.9	0.1	(406.1)	557.8
Net deficit/(surplus) before financing costs	69.8	2.5	72.3	(4.7)	(0.2)	0.1	(56.6)	10.9
Net financing cost	67.2	1.5	68.7	13.8	0.6	-	0.1	83.2
Other income	(2.6)	-	(2.6)	3.3	(0.5)	0.1	-	0.3
Net deficit/(surplus) for the year	134.4	4.0	138.4	12.4	(0.1)	0.2	(56.5)	94.4
Non-current assets	865.7	41.8	907.5	316.2	59.8	5.6	(340.2)	948.9
Current assets	305.3	7.9	313.2	40.9	9.9	230.8	(316.0)	278.8
Current liabilities	(600.7)	(7.5)	(608.2)	(33.7)	(8.1)	(224.2)	286.6	(587.6)
Total assets less current liabilities	570.3	42.2	612.5	323.4	61.6	12.2	(369.6)	640.1
Non-current liabilities	(880.1)	(10.5)	(890.6)	(88.0)	(9.6)	(203.8)	318.0	(874.0)
Net pension liability	(781.2)	-	(781.2)	(172.2)	(6.1)	-	-	(959.5)
Net assets/(liabilities)	(1,091.0)	31.7	(1,059.3)	63.2	45.9	(191.6)	(51.6)	(1,193.4)

Segmental reporting analysis 2009-10

	Central government entities £bn	Entities within the NHS £bn	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2009-10 £bn
Taxation revenue	(540.8)	-	(540.8)	(51.6)	(0.1)	107.2	(485.3)
Other revenue	(145.0)	(56.9)	(201.9)	(144.5)	(25.5)	275.2	(96.7)
Total operating revenues	(685.8)	(56.9)	(742.7)	(196.1)	(25.6)	382.4	(582.0)
Staff costs	76.8	38.1	114.9	79.1	10.0	(23.6)	180.4
Other expenses	747.8	22.6	770.4	128.2	16.2	(429.5)	485.3
Net deficit before financing costs	138.8	3.8	142.6	11.2	0.6	(70.7)	83.7
Net financing cost	64.1	1.5	65.6	13.9	0.9	0.1	80.5
Other income	(0.8)	-	(0.8)	1.4	(0.4)	0.1	0.3
Net deficit for the year	202.1	5.3	207.4	26.5	1.1	(70.5)	164.5
Non-current assets	934.4	39.9	974.3	339.5	56.3	(416.3)	953.8
Current assets	311.6	7.5	319.1	37.4	10.0	(112.8)	253.7
Current liabilities	(431.9)	(6.7)	(438.6)	(29.5)	(7.2)	120.2	(355.1)
Total assets less current liabilities	814.1	40.7	854.8	347.4	59.1	(408.9)	852.4
Non-current liabilities	(936.1)	(8.5)	(944.6)	(89.0)	(9.7)	111.4	(931.9)
Net pension liability	(899.4)	-	(899.4)	(222.1)	(10.8)	-	(1,132.3)
Net Assets / (Liabilities)	(1,021.4)	32.2	(989.2)	36.3	38.6	(297.5)	(1,211.8)

*In line with IAS 1, the 2009-10 comparatives have not been restated as it would be impractical to do so.

Note 3. Taxation revenue

	2010-11 £bn	2009-10 £bn
Income tax	158.1	152.6
Social security and National Health Service contributions	85.5	90.4
Corporation tax	46.4	37.8
Capital gains tax	3.7	1.9
Inheritance tax	2.7	2.5
Taxation revenue from direct taxes	296.4	285.2
Value added tax	88.2	76.1
Hydrocarbon oils duty	27.2	26.3
Excise duties	25.2	25.1
Stamp duties	9.0	8.1
TV licence fee income	3.2	3.0
Lottery income	1.7	1.6
Other indirect taxes	11.7	7.8
Taxation revenue from indirect taxes	166.2	148.0
Council tax	30.2	29.4
National non-domestic rates	22.6	22.7
Taxation revenue from local taxes	52.8	52.1
Total taxation revenue	515.4	485.3

Income tax included an amount of £0.9 billion (2009-10: £2.5 billion) for the bank payroll tax on certain discretionary bonuses, which was introduced in the Finance Act 2010. It does not include tax credits as these are categorised as an expense and included within benefits in Note 6. Corporation tax included an amount of £0.7 billion for the bank levy payable by banking institutions, which was introduced by the Finance Act 2011 and commenced on the 1 January 2011. It is an estimate of accrued revenue liabilities from the 1 January 2011 to the 31 March 2011.

Other indirect taxes include petroleum revenue tax of £1.6 billion (2009-10: £1.0 billion), as well as betting and gaming duties, air passenger duty, insurance premium tax, landfill tax, climate change levy, aggregates levy, and regulatory fees. Further information is available on the HM Revenue and Customs website (www.hmrc.gov.uk).

Tax revenues are estimated by HM Revenue and Customs using a statistical based model as outlined in the accounting policy notes 1.11.1 and 1.22.4. In his Audit Certificate on the 2010-11 Trust Statement of Tax Revenues and Expenditure, the Comptroller and Auditor General noted that the account is not qualified, but included an Emphasis of Matter paragraph. This described the significant uncertainty in the estimates of accrued tax revenue receivable and accrued tax revenue payable. As described in Note 1.22.4, HM Revenue and Customs consider that the overall uncertainty is expected to be some £4 billion in either direction, equivalent to less than one percent of the total revenue reported in the Statement of Revenue and Expenditure. Further information is set out in the 2010-11 accounts of HM Revenue and Customs, which is available on its website (www.hmrc.gov.uk).

National non-domestic rates (NNDR) (also known as Business Rates) are collected by each local authority and paid into a national pool, which is shared out between local authorities as part of a formula grant. NNDR, together with Council Tax, are used by local authorities to pay for local services.

Lottery income includes monies generated by the National Lottery for good causes, such as arts, sports, community projects and National Heritage good causes, and the 2012 Olympics.

The above figures are shown net of transactions between WGA entities. Amounts have been eliminated from the above figures for other indirect taxes (£74.9 billion (2009-10: £74.5 billion)), national non-domestic rates redistributed to local authorities by central government departments and the national non-domestic rates paid by entities within the WGA boundary (£23.8 billion (2009-10: £22.1 billion)), social security and National Health Service contributions (£10.6 billion (2009-10: £10.5 billion)) and corporation tax (£0.2 billion (2009-10: £0.1 billion)).

Note 4. Revenue from sales of goods and services

	2010-11	2009-10
	£bn	£bn
Local government	25.4	28.3
Public corporations	17.1	16.1
Central government	7.3	6.6
Revenue from sales of goods and services	49.8	51.0

The £25.4 billion (2009-10: £28.3 billion) of revenue received by local authorities arise from fees in respect of services delivered to the public such as social care, planning and development, cultural and leisure provision and environmental services. The most significant single item of revenue was fare revenue from the Transport for London bus and underground transport service (£3.3 billion (2009-10: £3.4 billion)).

Significant revenue streams earned by public corporations from the sale of goods and services included revenue from postal services received by Royal Mail (£9.0 billion (2009-10: £8.4 billion)), revenue from staked amounts received by the Horserace Totalisator Board (£2.9 billion (2009-10: £2.8 billion)), revenues earned by the broadcasting public corporations, primarily from advertising and sales of goods and commercial rights (£1.8 billion (2009-10: £1.5 billion)), and £1.1 billion (2009-10: £1.1 billion) received by Scottish Water for the supply of waste and water services

Significant revenue earned by central government entities from the sale of goods and services included £1.0 billion (2009-10: £1.3 billion) received by the Nuclear Decommissioning Authority in relation to waste management and electricity generation contracts. Central government revenue also includes £1.5 billion (2009-10: £1.4 billion) of revenue earned by entities within the National Health Service.

These amounts do not include revenue received from other WGA entities.

Note 5. Other revenue

	2010-11	2009-10 restated
	£bn	£bn
Fees, levies and charges	10.2	10.2
Rental revenue from local government housing	7.0	6.8
EU Income	4.9	5.5
Pension scheme employee contribution income	5.5	5.3
Pension scheme employer contribution income	2.2	2.2
Private sector contributions to local services	4.0	4.6
Income received by health entities	1.7	1.3
Licence income	0.3	0.3
Share of profit/(loss) of associates and joint ventures	-	0.1
Miscellaneous operating revenue	13.0	9.4
Other revenue		45.7
Restatements		1.4
Other revenue (restated)	48.8	47.1

Fees and charges usually reflect the full cost of the service being provided. Levies are licences to operate and use public goods, and are charged by statutory regulators, or to support industry specific research foundations. Levies are usually set to recover associated costs, such as costs of supervision by a regulator.

EU income is funding received by WGA entities from the EU for projects supported wholly or partially by the EU. Much of this funding is passed onto third parties.

Pension scheme employer and employee contribution income is the contribution income recognised in the underlying accounts of the central government pension schemes, predominantly the NHS Pension Scheme, Teachers Pension Scheme, and the Civil Service Pension Scheme. The majority of employer contribution income is eliminated against the employer contribution expense, as most employer entities in these schemes are entities within WGA. The pre-eliminated balance was £13.6 billion (2009-10: £15.2 billion). The remaining balance relates to employers that participate in these schemes, but are outside the WGA boundary. Examples include GPs and charity hospices that contribute to the NHS pension scheme; higher and further education institutions, and independent teaching establishments that contribute to the Teachers Pension Scheme; and non-WGA entities such as the NAO, Welsh Audit Office, Electoral Commission, Pension Protection Fund, and some minor entities that contribute to the Civil Service Pension Scheme.

Miscellaneous operating income includes various types of income across a wide range of public sector entities. The largest components included £1.0 billion (2009-10: £0.6 billion) recognised by the Department for Transport from train operating companies in relation to franchise agreements, and £0.4 billion (2009-10: £0.4 billion) income for issuing coinage and the surplus revenue from the Crown Estate.

Miscellaneous operating income also includes income received by entities within the National Health Service for education, training, research and development, charitable donations, and other miscellaneous income. Further details can be found in the 2010-11 Summarised Account of NHS Trusts and the 2010-11 NHS Foundation Trusts Consolidated Accounts.

Note 6. Social security benefits

	2010-11	2009-10 restated
	£bn	£bn
State retirement pension	74.1	71.4
Local government housing and other benefits	29.3	27.9
Tax credits	28.1	26.8
Disability living allowance	19.1	17.7
Child benefit	12.1	11.9
Income support	8.3	8.7
State pension credit	8.3	8.2
Incapacity benefit	5.8	6.4
Jobseeker's allowance	6.9	6.1
Carer's allowance	1.6	1.5
Other benefits	10.4	10.5
Total cost of benefits	204.0	197.1

Social security benefits are statutory entitlements (most of which are included in the Social Security Contributions and Benefits Act 1992), payable to private individuals and households.

The State Retirement Pension is the pension paid to the public. Pension payments to former public sector employees are shown in Note 27.

The majority of social security payments are paid by the Department for Work and Pensions. In Northern Ireland, these payments, together with the payment of housing benefit, are the responsibility of the Department for Social Development. The 2010-11 accounts of both these departments received qualified regularity opinions from their external auditor in respect of error and fraud in benefit payments. For 2010-11, the Department for Work and Pensions estimated that fraud and error within state pension expenditure resulted in overpayments of £0.1 billion and underpayments of £0.1 billion. For other benefits, the Department estimated that fraud and error resulted in overpayments of £3.2 billion and underpayments of £1.2 billion. Similarly, the Department for Social Development estimated that in respect to non state pension related benefits, fraud and error resulted in total overpayments of £0.07 billion and underpayments due to official error of £0.02 billion. Further information is available in the 2010-11 accounts of each department, which are available on the websites: www.dwp.gov.uk and www.dsdni.gov.uk respectively.

Tax credits and child benefits are administered by HM Revenue and Customs. Tax credits include adjustments to income tax as well as direct benefit payments. The Comptroller and Auditor General qualified his regularity opinion on the 2010-11 Trust Statement of Tax Revenues and Expenditure in respect of error and fraud in tax credits, as the Department had no estimate of the total levels of potential fraud in 2010-11 at that time. Subsequently, it estimated that in 2010-11 error and fraud resulted in overpayments to which the claimants were not entitled of between £2.1 billion and £2.5 billion (2009-10: between £1.8 billion and £2.1 billion) and underpayments of between £0.2 billion and £0.3 billion (2009-10: between £0.3 billion and £0.6 billion). Further information is set out in the 2010-11 and 2011-12 accounts of HM Revenue and Customs, which are available on the website: www.hmrc.gov.uk.

Note 7. Staff costs and numbers

Note 7.1 Staff Costs

Staff costs comprise:

	2010-11 £bn	2009-10 restated £bn
Salaries and wages	151.8	151.2
Social security costs	10.7	10.5
Staff pension costs	12.5	13.9
Pension scheme costs: current service costs	40.4	27.5
Pension scheme costs: losses on settlements and curtailments	(0.3)	0.2
Total staff costs (pre-eliminations)	215.1	203.3
Less intra-government balances	(22.0)	(23.6)
Total consolidated staff costs	193.1	179.7

This note has been prepared to show the full cost of the public sector workforce before items internal to the public sector, which are disclosed as 'intra-government balances' are removed. Intra-government balances include national insurance contributions which would otherwise form part of tax revenue of £10.6 billion (2009-10: £10.5 billion) (see Note 3) and employers' pension contributions of £11.4 billion (2009-10: £13.1 billion) (see Note 5).

'Salaries and wages' include the cost of ministers, permanent members of staff, temporary and contract staff. 'Staff pension costs' consist mainly of employer contributions to internal and external schemes. The bulk of these costs are eliminated as part of the consolidation and form part of the intra-government balances.

'Pension scheme costs' include public sector pension scheme expenses such as current service cost, enhancements, gains/losses on settlements and curtailments and expenses for the transfer in of new members. These are detailed in Note 27. Past service costs are provided below.

Note 7.2 Pension past service costs and indexation adjustment

	2010-11 £bn	2009-10 £bn
Past service costs including pension indexation adjustment	(126.0)	0.7

'Past service costs' are increases/decreases in the present value of the scheme liabilities related to past employee service resulting from the introduction, change, or improvement to retirement benefits in the current year. In the Budget Statement of 22 June 2010 the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The change from RPI to CPI for the purposes of up-rating index-linked features of post employment benefits has been recognised as a reduction to the cost of government of past service. This is a one off adjustment.

Note 7.3 Average Number of Persons Employed

The average number of full-time equivalent (FTE) persons employed during the year was as follows:

	2010-11	2009-10 restated
	Total	Total
Central government	2,316,023	2,345,408
Local government	2,135,666	2,266,834
Non-financial public corporations	287,752	297,230
Financial public corporations	1,845	1,896
Total	4,741,286	4,911,368

Average staff numbers include staff engaged on capital projects. The central government aggregate includes 1,315,292 (2009-10: 1,424,231) FTE staff working in the health sector.

Note 8. Expenditure on purchases of goods and services

	2010-11 £bn	2009-10 £bn
Central government	82.0	83.7
Local government	69.0	68.9
Public corporations	8.2	8.3
Expenditure on purchases of goods and services	159.2	160.9

Central government includes entities in the National Health Service, which spent £43.9 billion (2009-10: £45.2 billion) primarily for the purchase of clinical supplies, general medical services, personal medical services, alternative provider medical services and costs of prescriptions. Other entities across government purchased a wide range of goods and services. These amounts do not include expenditure paid to other WGA entities.

Note 9. Grants and subsidies

	2010-11 £bn	2009-10 £bn
Grants in relation to education paid by the Education Funding Agency (formerly Young Peoples Learning Agency), the Skills Funding Agency, and higher education funding councils	19.5	20.4
UK contribution to the Budget of the European Communities	8.4	6.4
EU grants and subsidies to the private sector to spend on EU approved projects, mainly to support agriculture and reduce regional economic disparities	4.5	4.4
Department for International Development grants to developing countries for eliminating poverty	4.8	4.3
Department for Transport grants to the private sector, mainly for capital investment in railways	4.8	4.0
Homes & Communities Agency funding to the private sector, mainly for capital investment in social housing	2.8	4.0
Financial support for higher education students provided by Student Finance England	1.7	1.4
Other revenue grants and subsidies	15.3	15.4
Other grants for capital expenditure	6.6	5.9
Total cost of grants and subsidies	68.4	66.2

Grants were made to the voluntary sector, private sector companies, households, overseas governments and other entities to fund the acquisition, construction or development of assets, or to fund public services and public service commitments. Subsidies were paid to companies that fulfilled specific criteria. The vast majority of grants and subsidies were made by central government bodies.

The UK contribution to the Budget of the European Community is the amount the UK pays directly to the EU less any subsidies. EU grants and subsidies are amounts paid to third parties to spend on EU approved projects. The income received from the EU to fund the payments is disclosed in Note 5.

Note 10. Depreciation and impairment charges

Depreciation and impairment charges are made up as follows:

	2010-11 £bn	2009-10 restated £bn
Revaluations and impairments of non financial assets	41.7	18.7
Depreciation of property, plant and equipment	23.8	22.0
Impairments of receivables	5.5	7.2
Impairment of financial assets	5.8	0.6
Amortisation of intangible fixed assets	3.6	3.1
Total depreciation and impairment charges	80.4	51.6

Impairment of non-financial assets included a £24.4 billion charge, which is due in part to a change to the adjustment factor in the prescribed calculation for assessing the social value of local authority housing. Any potential loss through impairment would only be realised if the assets were sold at their social value rather than the actual market value of the properties. Other significant impairments were recognised by MOD (£7.0 billion (2009-10: £1.2 billion)). This was due to write offs of assets arising from the Strategic Defence Security Review.

Impairments of receivables included £4.7 billion (2009-10 restated: £6.0 billion) in relation to tax revenue losses, of which £1.9 billion (2009-10: £3.1 billion) related to VAT, representing debts that HM Revenue & Customs (HMRC) considered to be irrecoverable because there was no practical means for pursuing the liability, for example because of insolvencies which limited the ability to recover tax due.

Note 11. Other expenditure

Other expenditure totals £27.5 billion (restated 2009-10: £28.0 billion) and includes the following:

	2010-11 £bn	2009-10 £bn
Research and development expenditure	3.0	3.1
Rentals under operating leases	2.8	2.6
Auditors' remuneration and expenses	0.1	0.1

Other expenditure is spread across government with no individually significant items. It comprises £17.5 billion (restated 2009-10: £16.4 billion) paid by central government (including £1.3 billion (2009-10: £1.4 billion) paid by entities within the National Health Service), £5.7 billion (restated 2009-10: £7.7 billion) paid by local government, and £4.3 billion (2009-10: £3.9 billion) paid by public corporations.

Auditors' remuneration and expenses include fees paid to private sector organisations and public sector entities not consolidated, for example the National Audit Office, Audit Scotland, Welsh Audit Office and Northern Ireland Audit Office. Audit fees payable to the Audit Commission have been eliminated on consolidation.

Note 12. Investment revenue

	2010-11 £bn	2009-10 restated £bn
Interest revenue from student loans	1.6	0.2
Interest revenue from other sources	3.1	3.1
Dividend revenue	0.4	1.0
Total investment revenue		4.3
Restatements		0.1
Total investment revenue (restated)	5.1	4.4

Interest revenue from other sources include interest earned on the loans provided to financial institutions, debt securities, loans advanced under reverse repurchase agreements, and currency swaps.

Note 13. Finance costs

	2010-11	2009-10 restated
	£bn	£bn
Interest costs in respect of government borrowing and financing	35.7	30.7
Finance charges in respect of finance leases & PFI contracts	2.8	2.2
Other finance costs	2.0	2.0
Total finance costs		34.9
Restatements		(1.8)
Total finance costs (restated)	40.5	33.1

Interest costs on government borrowing and financing comprises interest on gilts, National Savings and Investment products, and Treasury bills.

Details of the obligations under finance leases are disclosed in Note 29.2 to the Accounts. Details of the obligations under PFI contracts are disclosed in Note 30 to the Accounts.

Other finance costs include interest costs on major capital projects that are not PFI contracts and on other financial liabilities such as deposits by banks and currency swaps.

Note 14. Property, plant and equipment

Note 14.1 Net Book Value of Property, plant and equipment at 31 March 2011 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2010-11 Total £bn
Cost or valuation:								
At 1 April 2010 (restated)	276.7	236.1	116.6	43.7	43.8	72.6	90.9	880.4
Additions	4.7	11.4	3.4	0.5	21.4	0.7	5.1	47.2
Revaluations and Impairments	15.8	(3.8)	(27.3)	(1.1)	(1.7)	(0.8)	0.5	(18.4)
Reclassifications	4.2	5.3	0.0	0.4	(21.6)	5.5	4.0	(2.2)
Disposals	(0.5)	(5.0)	(1.3)	(1.1)	(0.3)	(5.9)	(9.4)	(23.5)
At 31 March 2011	300.9	244.0	91.4	42.4	41.6	72.1	91.1	883.5
Depreciation:								
At 1 April 2010 (restated)	(42.4)	(34.0)	(5.2)	-	-	(36.6)	(49.4)	(167.6)
Charged in year	(3.0)	(7.2)	(2.0)	-	-	(5.2)	(6.3)	(23.7)
Revaluations and Impairments	(2.0)	1.5	0.6	-	-	0.5	(0.6)	-
Reclassifications	0.4	0.7	0.6	-	-	0.5	(0.1)	2.1
Disposals	0.2	2.1	0.2	-	-	4.4	8.8	15.7
Depreciation at 31 March 2011	(46.8)	(36.9)	(5.8)	-	-	(36.4)	(47.6)	(173.5)
Net Book Value at 31 March 2011	254.1	207.1	85.6	42.4	41.6	35.7	43.5	710.0

'Infrastructure assets' include £15.8 billion of revaluations and impairments. This mainly comprises of revaluations to the Road Network for Department for Transport (£12.6 billion), Welsh Assembly Government (£1.1 billion) and Scottish Government (£1.1 billion). This is due to the change of VAT rate from 17.5 per cent to 20 per cent and indexation rate increases applied to ensure the valuation reflects movement in current prices.

'Infrastructure assets' include assets held by entities within the National Health Service and by Scottish Water stated at net book value as reported in their individual accounts. Accordingly, the gross book values in these accounts include the net book value of these assets and depreciation is not separately disclosed. 'Infrastructure assets' also include highways infrastructure assets held by the Highways Agency of £98.7 billion (2009-10: £86.9 billion) and by local authorities of £51.8 billion (2009-10: £49.1 billion). Local authorities prepare their accounts on a historical cost basis compared to the depreciated replacement cost basis used by all other government entities, but are working towards calculating a valuation on a depreciated replacement cost basis for inclusion in the 2012-13 Whole of Government Accounts. The best proxy available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2010 National Accounts estimated the value of the road network at £260 billion (2009-10: £248 billion) as at 31 December 2010. On this basis, infrastructure assets are likely to be understated because of this treatment by at least £200 billion.

'Dwellings' show impairments of £20.4 billion and revaluations of £6.9 billion. The majority of this is impairments (£20.1 billion) and revaluations (£7.0 billion) to local authority dwellings. During the year, most local authority social housing stock was re-valued. The basis of the valuation was 'Existing Use Value for Social Housing' (EUV-SH) as defined by RICS. This is the estimated value of the property at the balance sheet date assuming (primarily) that the property continues to be used for social housing purposes. The effect of this valuation was to substantially reduce the value of the housing stock, which is reflected in significant revaluation and impairment adjustments.

'Military Equipment' disposals of £5.9 billion include asset write-offs where it has been possible to assess the impact of early Strategic Defence Security Review (SDSR) decisions, including NIMROD (£1.3 billion), Harrier (£0.9 billion) and 4 Type 32 Frigates (£0.3 billion).

'Buildings' show disposals of £5.0 billion in 2010-11. The majority of these were disposals made by local authorities. It also includes £1.1 billion of buildings disposed of by the Nuclear Decommissioning Authority, which is part of a total of £5.6 billion disposal by the NDA relating to waste management assets that no longer had any economic value.

'Other' includes property, plant and equipment broken down in the table below.

'Reclassifications' include assets reclassified to and from intangible assets and transfers to and from operating expenditure or reserves.

'Other' property, plant and equipment consist of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	2010-11 Total £bn
Cost or valuation:					
At 1 April 2010 (restated)	47.0	20.5	11.9	11.5	90.9
Additions	2.9	0.2	1.1	0.9	5.1
Revaluations and impairments	-	0.7	(0.1)	(0.1)	0.5
Reclassifications	1.3	2.5	(0.1)	0.3	4.0
Disposals	(6.4)	(1.5)	(1.0)	(0.5)	(9.4)
At 31 March 2011	44.8	22.4	11.8	12.1	91.1
Depreciation:					
At 1 April 2010 (restated)	(29.9)	(10.4)	(6.2)	(2.9)	(49.4)
Charged in year	(3.6)	(1.0)	(1.4)	(0.3)	(6.3)
Revaluations and impairments	(0.1)	(0.5)	-	-	(0.6)
Reclassifications	0.1	(0.4)	0.1	0.1	(0.1)
Disposals	6.3	1.3	0.9	0.3	8.8
Depreciation at 31 March 2011	(27.2)	(11.0)	(6.6)	(2.8)	(47.6)
Net Book Value at 31 March 2011	17.6	11.4	5.2	9.3	43.5

'Plant and Machinery' disposals of £6.4 billion comprise mainly of the NDA waste management disposals (£4.5 billion). These assets had been previously owned by BNFL and UKAEA and transferred to them under arrangements which established the NDA.

Plant and machinery includes vehicles held by local authorities, who are not required to separately disclose them.

'Furniture and Fittings and Other Assets' include heritage assets, community assets, cultivated assets, biological assets, and donated assets.

Note 14.2 Net Book Value of Property, plant and equipment at 31 March 2010 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2009-10 Total £bn
Cost or valuation:								
At 1 April 2009	272.4	248.9	115.9	26.7	36.2	71.1	85.8	857.0
Additions	5.5	10.2	3.7	0.2	20.3	0.5	6.3	46.7
Revaluations and Impairments	(3.4)	(10.3)	(0.3)	(3.3)	0.2	2.2	0.9	(14.0)
Reclassifications	1.1	5.4	1.2	0.6	(16.1)	0.4	4.2	(3.2)
Disposals	(0.3)	(2.2)	(1.3)	(0.7)	-	(1.6)	(3.4)	(9.5)
At 31 March 2010	275.3	252.0	119.2	23.5	40.6	72.6	93.8	877.0
Restatements	1.4	(15.9)	(2.6)	20.2	3.2	-	(2.9)	3.4
At 31 March 2010 (restated)	276.7	236.1	116.6	43.7	43.8	72.6	90.9	880.4
Depreciation:								
At 1 April 2009	(40.6)	(29.4)	(4.3)	-	-	(35.6)	(44.9)	(154.8)
Charged in year	(3.2)	(7.7)	(2.3)	-	-	(3.6)	(6.2)	(23.0)
Revaluations and Impairments	0.5	0.6	0.9	-	-	(1.1)	(0.5)	0.4
Reclassifications	0.8	0.8	0.2	-	-	2.4	(0.2)	4.0
Disposals	0.2	0.5	0.1	-	-	1.3	2.3	4.4
Depreciation at 31 March 2010	(42.3)	(35.2)	(5.4)	-	-	(36.6)	(49.5)	(169.0)
Restatements	(0.1)	1.2	0.2	-	-	-	0.1	1.4
At 31 March 2010 (restated)	(42.4)	(34.0)	(5.2)	-	-	(36.6)	(49.4)	(167.6)
Net Book Value at 31 March 2010 (restated)	234.3	202.1	111.4	43.7	43.8	36.0	41.5	712.8

Included in buildings in the above table are land and buildings held by local authorities with a net book value of £141.9 billion, as local authorities did not split their assets between land and buildings before 2010-11.

'Other' property, plant and equipment consist of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	2009-10 Total £bn
Cost or valuation:					
At 1 April 2009	45.2	16.4	10.7	13.5	85.8
Additions	3.4	0.6	1.2	1.1	6.3
Revaluations and Impairments	-	1.0	0.3	(0.4)	0.9
Reclassifications	0.2	3.4	0.2	0.4	4.2
Disposals	(1.7)	(0.4)	(0.5)	(0.8)	(3.4)
At 31 March 2010	47.1	21.0	11.9	13.8	93.8
Restatements	(0.1)	(0.5)	-	(2.3)	(2.9)
At 31 March 2010 (restated)	47.0	20.5	11.9	11.5	90.9
Depreciation:					
At 1 April 2009	(28.2)	(8.8)	(5.2)	(2.7)	(44.9)
Charged in year	(3.3)	(1.0)	(1.5)	(0.4)	(6.2)
Revaluations and Impairments	-	(0.4)	(0.1)	-	(0.5)
Reclassifications	0.2	(0.6)	0.2	-	(0.2)
Disposals	1.4	0.3	0.4	0.2	2.3
At 31 March 2010	(29.9)	(10.5)	(6.2)	(2.9)	(49.5)
Restatements	-	0.1	-	-	0.1
At 31 March 2010 (restated)	(29.9)	(10.4)	(6.2)	(2.9)	(49.4)
Net Book Value at 31 March 2010 (restated)	17.1	10.1	5.7	8.6	41.5

Note 14.3 Asset financing 2010-11

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2010-11 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	248.1	179.7	82.5	38.5	41.4	35.7	38.9	664.8
Finance leased	-	4.3	1.8	2.1	-	-	1.7	9.9
On balance sheet PFI	5.8	23.1	1.3	1.8	-	-	2.9	34.9
PFI reversionary interest	0.2	-	-	-	0.2	-	-	0.4
Net book value	254.1	207.1	85.6	42.4	41.6	35.7	43.5	710.0

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2010-11 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.9	10.4	3.3	9.3	38.9
Finance leased	0.7	0.8	0.2	-	1.7
On balance sheet PFI	1.0	0.2	1.7	-	2.9
Net book value	17.6	11.4	5.2	9.3	43.5

Note 14.4 Asset financing 2009-10

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2009-10 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	228.9	189.9	110.2	21.6	40.5	36.0	39.8	666.9
Finance leased	0.3	6.3	2.1	0.1	-	-	1.4	10.2
On balance sheet PFI	3.8	20.4	1.5	1.8	-	-	3.1	30.6
PFI reversionary interest	-	0.2	-	-	0.1	-	-	0.3
Net book value	233.0	216.8	113.8	23.5	40.6	36.0	44.3	708.0
Net book value (restated)	234.3	202.1	111.4	43.7	43.8	36.0	41.5	712.8

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2009-10 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.4	9.9	3.6	10.9	39.8
Finance leased	0.7	0.5	0.2	-	1.4
On balance sheet PFI	1.1	0.1	1.9	-	3.1
Net book value	17.2	10.5	5.7	10.9	44.3
Net book value (restated)	17.1	10.1	5.7	8.6	41.5

Note 14.5 Impairments 2010-11

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2010-11 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(0.2)	(5.9)	(18.0)	(0.9)	(1.9)	(1.0)	(0.8)	(28.7)
Net impairment costs transferred to Revaluation Reserve	-	(0.6)	(2.3)	(0.3)	-	-	(0.1)	(3.3)
Total	(0.2)	(6.5)	(20.3)	(1.2)	(1.9)	(1.0)	(0.9)	(32.0)

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2010-11 Total
	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(0.1)	(0.3)	-	(0.4)	(0.8)
Net impairment costs transferred to Revaluation Reserve	-	-	-	(0.1)	(0.1)
Total	(0.1)	(0.3)	-	(0.5)	(0.9)

Note 15. Investment properties

	2010-11	2009-10 restated
	£bn	£bn
As at 1 April	12.0	14.7
Additions	0.2	0.9
Revaluations and impairments	0.4	(0.3)
Disposals	(0.2)	(0.7)
As at 31 March		14.6
Restatements		(2.6)
As at 31 March (restated)	12.4	12.0

Investment properties comprise mainly of land and buildings held by local authorities. They provide rental income for the funding of services, as part of a financial strategy to minimise the use of general reserves to meet ongoing expenditure. All investment properties are owned rather than finance leased.

Details of restatements are included in Note 39 'Prior period adjustments'.

Note 16. Intangible assets

Note 16.1 Intangible assets 2010-11

	Military equipment	Development expenditure	Software licences	Internally developed software	Licences, trademarks and patents	Goodwill	2010-11 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:							
At 1 April 2010 (restated)	30.0	10.6	7.4	3.8	1.0	0.9	53.7
Additions	0.9	0.8	0.9	0.1	0.1	0.3	3.1
Revaluations and Impairments	(3.3)	0.3	-	-	-	(0.3)	(3.3)
Reclassifications	1.8	(1.9)	0.5	0.4	(0.1)	-	0.7
Disposals	(1.3)	(0.1)	(0.6)	(0.1)	-	-	(2.1)
At 31 March 2011	28.1	9.7	8.2	4.2	1.0	0.9	52.1
Amortisation:							
At 1 April 2010 (restated)	(7.6)	(3.3)	(3.7)	(1.8)	(0.5)	(0.5)	(17.4)
Charged in year	(1.4)	(0.4)	(1.2)	(0.5)	(0.1)	-	(3.6)
Revaluations and Impairments	1.3	(0.1)	-	-	-	-	1.2
Reclassifications	-	-	(0.1)	-	0.1	-	-
Disposals	1.3	-	0.6	0.1	-	-	2.0
At 31 March 2011	(6.4)	(3.8)	(4.4)	(2.2)	(0.5)	(0.5)	(17.8)
Net book value at 31 March 2011	21.7	5.9	3.8	2.0	0.5	0.4	34.3

Military equipment primarily covers the development of new equipment and the improvement of the effectiveness and capability of existing military equipment by the Ministry of Defence. It includes the Typhoon Airframe (net book value: £6.7 billion (2009-10: £6.3 billion)), the Type 45 Destroyer (£1.9 billion (2009-10: £1.2 billion)). Impairments include write offs in relation to the Nimrod Aircraft (£2.1 billion) and the Harrier jet (£0.6 billion).

Development expenditure is capitalised as an intangible asset in accordance with the accounting policy on research and development as described in Note 1.12.4. The Ministry of Defence makes up a large majority of development expenditure (net book value: £5.3 billion (2009-10: £6.6 billion)). This consists of

development expenditure on equipment which is not restricted to military use, such as expenditure on the Merlin helicopter (£1.7 billion (2009-10: £1.8 billion)).

Note 16.2 Intangible assets 2009-10

	Military equipment	Development expenditure	Software licences	Internally developed software	Licences, trademarks and patents	Goodwill	2009-10 restated Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:							
At 1 April 2009	32.5	5.6	5.9	3.0	1.0	0.8	48.8
Additions	0.9	0.7	1.1	0.3	0.1	0.1	3.2
Revaluations and Impairments	1.1	0.7	0.1	-	-	-	1.9
Reclassifications	(4.4)	4.0	0.1	0.3	(0.1)	-	(0.1)
Disposals	(0.1)	-	(0.1)	(0.1)	-	-	(0.3)
At 31 March 2010	30.0	11.0	7.1	3.5	1.0	0.9	53.5
Restatements	-	(0.4)	0.3	0.3	-	-	0.2
At 31 March 2010 (restated)	30.0	10.6	7.4	3.8	1.0	0.9	53.7
Amortisation:							
At 1 April 2009	(7.8)	(1.5)	(2.8)	(1.2)	(0.3)	(0.5)	(14.1)
Charged in year	(1.1)	(0.5)	(1.0)	(0.4)	(0.1)	-	(3.1)
Revaluations and Impairments	(0.3)	(0.2)	-	-	-	-	(0.5)
Reclassifications	1.6	(1.3)	-	-	-	-	0.3
Disposals	-	-	0.1	0.1	-	-	0.2
At 31 March 2010	(7.6)	(3.5)	(3.7)	(1.5)	(0.4)	(0.5)	(17.2)
Restatement	-	0.2	-	(0.3)	(0.1)	-	(0.2)
At 31 March 2010 (restated)	(7.6)	(3.3)	(3.7)	(1.8)	(0.5)	(0.5)	(17.4)
Net book value at 31 March 2010 (restated)	22.4	7.3	3.7	2.0	0.5	0.4	36.3

Note 17. Trade and other receivables

	2010-11	2009-10
	£bn	restated £bn
Amounts falling due within one year:		
Accrued tax revenue	85.8	80.9
Taxation and duties due	23.1	23.8
Trade receivables	9.8	11.9
Other receivables	17.2	18.1
Prepayments and other accrued revenue	8.7	7.6
PFI prepayments	0.1	0.1
Sub-total	144.7	142.4
Provision for irrecoverable debts	(14.0)	(18.2)
Current trade and other receivables		124.2
Restatements		0.8
Total current trade and other receivables (restated)	130.7	125.0
Amounts falling due after more than one year:		
Taxation and duties due	4.5	1.7
Trade receivables	0.8	0.6
Other receivables	13.2	12.4
Prepayments and accrued revenue	1.1	0.8
PFI prepayments	0.2	0.2
Sub-total	19.8	15.7
Provision for irrecoverable debts	(4.7)	(2.1)
Non-current trade and other receivables		13.6
Restatements		0.8
Total non-current trade and other receivables (restated)	15.1	14.4
Total trade and other receivables at 31 March (restated)	145.8	139.4

Provision for irrecoverable debts

	Current	Non-current	Total
	£bn	£bn	£bn
Balance at 1 April 2009	(18.3)	(2.4)	(20.7)
Net decrease in provision	0.1	0.3	0.4
Balance at 31 March 2010	(18.2)	(2.1)	(20.3)
Restatements	1.9	0.2	2.1
Balance at 1 April 2010 (restated)	(16.3)	(1.9)	(18.2)
Net decrease/(increase) in provision	2.3	(2.8)	(0.5)
Balance at 31 March 2011	(14.0)	(4.7)	(18.7)

Accrued tax revenue comprises accrued Income Tax (£27.8 billion (2009-10: £26.1 billion)), VAT (£25.6 billion (2009-10: £22.1 billion)), Corporation Tax (£14.4 billion (2009-10: £13.0 billion)), National

Insurance Contributions (£11.4 billion (2009-10: £11.5 billion)) and other taxes, duties and levies (£6.6 billion (2009-10: £8.2 billion)). These have been estimated by HMRC using statistical modelling, as described in Note 1.11.1. Due to cycle of tax calculations, these amounts were not due to be notified to the taxpayer until 2011-12 or later. Taxation and duties due comprise amounts due from taxpayers where the liability has been established but payment has not yet been received.

Prepayments and other accrued revenue largely comprises balances held by central government departments, including welfare benefit overpayments that have not yet been recovered and unpaid fines.

The largest components within provisions for irrecoverable debt are estimates of £10.0 billion (2009-10: £10.9 billion) made to reflect the risk of non-payment of tax and £1.8 billion (2009-10: £1.4 billion) in relation to welfare benefit balances, with most of the remaining provisions reflected in local government accounts.

Note 18. Equity investments in the public sector banks

The Government had investments in the Royal Bank of Scotland Group Plc, Lloyds Banking Group Plc, Northern Rock (Asset Management) Plc, Northern Rock Plc and Bradford & Bingley Plc as shown below. These investments are managed by UK Financial Investments Limited (UKFI). Further information is available from HM Treasury's 2010-11 Accounts and UKFI's 2010-11 Annual Report and Accounts.

	2010-11	2009-10 restated
	£bn	£bn
Royal Bank of Scotland Group plc	39.3	42.4
Lloyds Banking Group plc	16.0	17.3
Northern Rock plc	1.2	1.4
Northern Rock (Asset Management) plc	-	-
Bradford & Bingley plc	-	-
Total investment	56.5	61.1

As a consequence of these equity holdings and, where relevant, the related financial interventions, there are a number of related transactions with public sector banks. These include:

- loans to banks (see Note 22)
- guarantees (see Note 31)
- contingent liabilities (see Notes 32 and 33)

The overall relationship with each bank, key events in 2010-11 and their summarised financial results can be found in Note 36.

Note 19. Assets held for sale

	Property, plant & equipment £bn	Other non- financial assets £bn	2010-11 Total £bn	2009-10 restated Total £bn
Value as at 1 April	1.6	0.1	1.7	1.7
Reclassifications	0.8	0.1	0.9	0.5
Disposals	(0.6)	-	(0.6)	(0.4)
Impairments	(0.2)	-	(0.2)	(0.1)
Revaluations	-	0.1	0.1	-
Balance at 31 March	1.6	0.3	1.9	1.7

The majority of assets held for sale comprise of land and buildings. Of the £1.9 billion total balance, local authorities hold about £0.8 billion of assets. The Nuclear Decommissioning Authority holds a further £0.3 billion of assets for sale. The remainder are principally held by the Ministry of Defence and Health bodies.

Note 20. Inventories

Note 20.1 Inventories 2010-11

	Raw materials and consumables £bn	Land, buildings and other work in progress £bn	Goods for resale and finished goods £bn	Land and buildings for resale and finished land and buildings £bn	2010-11 Total £bn
As at 1 April 2010 (restated)	8.9	1.8	1.0	0.3	12.0
Additions	6.9	0.3	1.6	-	8.8
Disposals	(6.0)	(0.3)	(1.5)	(0.1)	(7.9)
Write-offs	(1.0)	(0.2)	(0.1)	-	(1.3)
Revaluation	0.7	(0.1)	-	-	0.6
Reclassification	(0.1)	-	-	(0.1)	(0.2)
As at 31 March 2011	9.4	1.5	1.0	0.1	12.0

Note 20.2 Inventories 2009-10

	Raw materials and consumables	Land, buildings and other work in progress	Goods for resale and finished goods	Land and buildings for resale and finished land and buildings	2009-10 restated Total
	£bn	£bn	£bn	£bn	£bn
As at 1 April 2009	7.6	1.9	1.1	0.5	11.1
Additions	6.5	0.3	1.1	0.2	8.1
Disposals	(5.2)	(0.2)	(1.0)	(0.1)	(6.5)
Write-offs	(0.4)	(0.1)	(0.1)	-	(0.6)
Revaluation	0.5	-	-	-	0.5
Reclassification	-	(0.1)	-	(0.1)	(0.2)
As at 31 March 2010	9.0	1.8	1.1	0.5	12.4
Restatements	(0.1)	-	(0.1)	(0.2)	(0.4)
As at 31 March 2010 (restated)	8.9	1.8	1.0	0.3	12.0

Raw materials and consumables

Included in the raw materials and consumables balance is an amount of £7.7 billion (2009-10: £7.2 billion) held for defence purposes. This covers a wide range of material and equipment such as munitions which have a limited life. Raw materials and consumables also include £0.1 billion (2009-10: £0.2 billion) of emergency or essential medical supplies and vaccines held by the Department of Health. The Department also holds £0.8 billion of pre-pandemic flu and essential medicines as stockpile goods which are included as property, plant and equipment. The remaining balances were held by central government entities (£0.4 billion (2009-10: £0.5 billion)), NHS trusts and foundation trusts (£0.8 billion (2009-10: £0.8 billion)), a number of entities in local government (£0.3 billion (2009-10: £0.2 billion)), and public corporations (£0.2 billion (2009-10: £0.2 billion)).

Of the total amount of raw materials and consumables written off during the course of the year, £1.0 billion (2009-10: £0.3 billion) was in respect of defence inventories, resulting mainly from an annual review of inventory provisions in accordance with inventory plans.

The Comptroller and Auditor General limited the scope of his opinion in relation to £5.2 billion (2009-10: £5.5 billion) of inventories held for defence purposes, as the Ministry of Defence was unable to provide sufficient evidence to support the existence and value of certain inventory balances reported within its financial statements. Further details are available in its 2010-11 accounts (www.mod.gov.uk).

Land, buildings and other work in progress

The balance of £1.5 billion (2009-10: £1.8 billion) includes: £0.7 billion (2009-10: £0.8 billion) of expenditure incurred by the Homes and Communities Agency to acquire and improve property, development assets and civic assets pending their disposal; £0.2 billion (2009-10: £0.5 billion) of land held for improvement and disposal by the Regional Development Agencies and the London Thames Gateway Development Corporation; and £0.2 billion (2009-10: £0.3 billion) of prepayments to acquire future programme related rights made by the BBC. The remaining balance of £0.4 billion (2009-10: £0.2 billion) is held by a number of entities in central government, local government and by public corporations.

Goods for resale and finished goods

This includes £0.5 billion (2009-10: £0.6 billion) incurred by the BBC and Channel Four primarily for completed programmes and rights to broadcast acquired programmes and films, and £0.2 billion (2009-10: £0.2 billion) of development assets held by the Welsh Assembly Government. The remaining balances were held by a number of entities in central government and public corporations (£0.2 billion (2009-10: £0.2 billion)), and local government (£0.1 billion (2009-10: £0.1 billion)).

Land & buildings for resale & finished land & buildings

This is primarily land and buildings for resale of £0.1 billion (2009-10 £0.1 billion) held by the Thurrock Development Corporation. £0.1 billion of land and buildings were reclassified to property, plant and equipment. These include regional control centres under the FiRe Control project held by the Department for Communities and Local Government and units and facilities in the Olympic Athletes' Village.

Note 21. Cash and cash equivalents

	2010-11	2009-10 restated
	£bn	£bn
Balance as at 1 April	19.7	9.0
Net change in cash and cash equivalent balances	2.8	(0.9)
Balance as at 31 March		8.1
Restatements		11.6
Balance as at 31 March (restated)	22.5	19.7
The following balances at 31 March were held at:		
Cash at bank	6.9	6.6
Short term deposits	15.6	13.1
Balance as at 31 March	22.5	19.7

*Details of restatements are included in Note 39 'Prior period restatements'.

Short term deposits are readily convertible investments of known value which are subject to an insignificant risk of changes in value.

Note 22. Other financial assets

Note 22.1 Other financial assets 2010-11

Other financial assets include the following:

	Loans and deposits with banks	Debt securities	Student loans	IMF Special Drawing Rights	Equity investments	Other	2010-11 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Current							
As at 1 April 2010	83.0	23.9	1.5	9.2	0.4	10.0	128.0
Movements in year	(33.0)	5.3	0.3	-	0.1	1.0	(26.3)
Reclassification	0.4	-	-	-	0.2	0.4	1.0
As at 31 March 2011	50.4	29.2	1.8	9.2	0.7	11.4	102.7
Non Current							
As at 1 April 2010	61.9	-	26.1	10.8	14.6	5.8	119.2
Movements in year	(1.6)	-	1.7	(0.2)	1.5	0.9	2.3
Reclassification	(0.5)	-	-	-	(0.2)	(0.2)	(0.9)
As at 31 March 2011	59.8	-	27.8	10.6	15.9	6.5	120.6
Total	110.2	29.2	29.6	19.8	16.6	17.9	223.3

Other financial assets comprise the following types of financial instruments as at 31 March 2011:

	Loans and receivables at amortised cost	Held to maturity investments at amortised cost	Available for sale at fair value	Held for trading at fair value	2010-11 Total
	£bn	£bn	£bn	£bn	£bn
Current					
Loans and deposits ¹	50.2	0.2	-	-	50.4
Debt securities	-	-	-	29.2	29.2
Student loans	1.8	-	-	-	1.8
IMF special drawing rights	-	-	-	9.2	9.2
Equity investments ²	-	-	0.4	0.3	0.7
Other securities	-	0.3	5.7	5.4	11.4
Total Current	52.0	0.5	6.1	44.1	102.7
Non-Current					
Loans and deposits	59.7	0.1	-	-	59.8
Student loans	27.8	-	-	-	27.8
IMF Quota subscription	10.6	-	-	-	10.6
Equity investments	-	0.1	13.9	1.9	15.9
Other securities	-	0.2	6.3	-	6.5
Total Non-Current	98.1	0.4	20.2	1.9	120.6
Total	150.1	0.9	26.3	46.0	223.3

¹ 'Loans and deposits' include the loans made to the financial institutions by HM Treasury.

² 'Equity investments' do not include investments in the public sector banks which are shown separately in Note 18.

Loans and deposits with banks

Loans and deposits with banks include £54.9 billion (2009-10: £57.5 billion) of loans and advances to banks and other financial services entities by HM Treasury. The largest of these were made to Northern Rock (£21.6 billion (2009-10: £23.0 billion)), the Financial Services Compensation Scheme (£18.8 billion (2009-10: £19.3 billion)), Bradford and Bingley (£10.7 billion (2009-10: £10.7 billion)) and the Depositors' and Investors' Guarantee Fund (£2.0 billion (2009-10: £2.2 billion)). Further details are available in the 2010-11 accounts of HM Treasury (www.hm-treasury.gov.uk).

£18.9 billion (2009-10: £48.1 billion) of funds were advanced to banks (or bank subsidiaries) and central clearing counterparties under reverse repurchase agreements where securities are held as collateral and then returned when the funds are repaid. Reverse sale and repurchase agreements were valued daily, and, depending on whether the value of the collateral has risen or fallen, collateral were returned to the provider of collateral, or additional securities requested from the provider of collateral. Further details are available in the 2010-11 accounts of the Exchange Equalisation Account and Debt Management Account. The reduction in these funds contributed to £27.4 billion of the £34.6 billion in year movement of loans and deposits.

Loans and deposits with banks also include deposits made by local government to commercial institutions of £14.4 billion (2009-10: £11.8 billion).

Debt securities

£29.2 billion (2009-10: £23.9 billion) of debt securities issued by public bodies, primarily foreign governments, were held by the Exchange Equalisation Account (EEA). EEA investments need to be highly liquid in order that they can be made available for use quickly, whilst minimising the costs of

holding the reserves. Inevitably, these investments carry some element of credit risk. In order to reduce this risk and to ensure the necessary liquidity, the EEA predominantly holds securities issued or guaranteed by the national governments of the United States, Euro area countries and Japan. Further details are available in the 2010-11 accounts of the EEA.

Student loans

Student loans are valued at the gross value of the loans issued discounted to net present value and reduced by an estimate of the future cost of policy write offs. Further detail on the valuation of student loans is available in the 2010-11 accounts of BIS and the devolved administrations.

IMF Special Drawing Rights

Non-current International Monetary Fund (IMF) Special Drawing Rights (SDRs) comprise the UK's Quota Subscription to the IMF. On becoming a member of IMF, the UK was required to pay a subscription to the IMF in a mix of SDRs, the IMF's unit of account, and other widely accepted currencies. The UK's Quota Subscription to the IMF is treated as both a loan and a receivable and is measured at amortised cost.

Current IMF SDRs comprise the UK's holding of SDRs resulting from SDR allocations made by the IMF plus subsequent purchases and sales of SDRs with other IMF members. SDR holdings are classified as 'held for trading' and measured at fair value.

Equity investments

Equity investments include investments in the European Investment Bank (£5.8 billion (2009-10: £5.5 billion)), and investments in international financial institutions held by the Department for International Development (£3.1 billion (2009-10: £3.3 billion)). The equity investment in the public sector banks is shown separately in Note 18.

Other securities

Other investments include the Bank of England's holdings of foreign government securities, foreign currency securities and equity investments of £4.8 billion (2009-10 restated: £4.0 billion). The opening balance for other investments was restated due to the consolidation of the Bank of England for the first time in 2010-11. Further details regarding these securities are available in the 2010-11 accounts of the bank.

Other investments also include securities held for trading by the Debt Management Office of £3.3 billion (2009-10: £0.5 billion) as part of its lending and borrowing cash management operations and by the Exchange Equalisation Account. Further details are available in the 2010-11 accounts of the Exchange Equalisation Account and Debt Management Account.

Note 22.2 Other financial assets 2009-10

	Loans and deposits with banks	Debt securities	Student loans	IMF Special Drawing Rights	Equity investments	Other	2009-10 restated Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Current							
As at 31 March 2010	63.1	23.8	-	9.2	0.4	3.7	100.2
Restatements	19.9	0.1	1.5	-	-	6.3	27.8
As at 31 March 2010 (restated)	83.0	23.9	1.5	9.2	0.4	10.0	128.0
Non Current							
As at 1 April 2009	52.0	-	-	11.2	14.0	1.5	78.7
Movements in year	10.6	-	-	(0.4)	1.2	-	11.4
Reclassification	(0.5)	-	-	-	0.1	(0.1)	(0.5)
As at 31 March 2010	62.1	-	-	10.8	15.3	1.4	89.6
Restatements	(0.2)	-	26.1	-	(0.7)	4.4	29.6
As at 31 March 2010 (restated)	61.9	-	26.1	10.8	14.6	5.8	119.2
Total (restated)	144.9	23.9	27.6	20.0	15.0	15.8	247.2

Other financial assets comprise the following types of financial instruments as at 31 March 2009-10:

	Loans and receivables at amortised cost	Held to maturity investments at amortised cost	Available for sale at fair value	Held for trading at fair value	2009-10	2009-10 restated
	£bn	£bn	£bn	£bn	£bn	£bn
Current						
Loans and deposits	48.2	10.9	-	4.0	63.1	83.0
Equity investments	-	0.1	0.1	0.3	0.5	0.4
Debt securities	-	-	-	23.8	23.8	23.9
Student loans	-	-	-	-	-	1.5
IMF Special Drawing Right	-	-	-	9.2	9.2	9.2
Other	-	-	0.3	3.3	3.6	10.0
Total Current	48.2	11.0	0.4	40.6	100.2	128.0
Non-Current						
Loans and deposits with banks	61.0	1.1	-	-	62.1	61.9
Equity investments	-	0.7	13.7	0.8	15.2	14.6
Student loans	-	-	-	-	-	26.1
IMF Quota Subscription	10.8	-	-	-	10.8	10.8
Other	0.2	-	1.1	0.2	1.5	5.8
Total Non-Current	72.0	1.8	14.8	1.0	89.6	119.2
Total	120.2	12.8	15.2	41.6	189.8	247.2

Note 23. Trade and other payables

	2010-11	2009-10 restated
	£bn	£bn
Amounts falling due within one year:		
Bank and other borrowings	5.2	5.2
Refunds of taxation and duties payable	22.2	22.4
Accruals and deferred income	33.9	30.0
Trade payables	18.1	18.7
Other payables	23.2	24.4
Obligations under finance leases and hire purchase contracts	0.6	0.9
Imputed finance lease element of on-balance sheet PFI contracts	1.0	0.9
Current trade and other payables		102.5
Restatements		0.6
Current trade and other payables (restated)	104.2	103.1
Amounts falling due after more than one year:		
Bank and other borrowings	26.8	25.8
Imputed finance lease element of on-balance sheet PFI contracts	31.0	27.2
Trade payables	0.4	0.4
Other payables	10.1	9.4
Obligations under finance leases and hire purchase contracts	6.0	5.7
Accruals and deferred income	3.4	5.2
Non-current trade and other payables		73.7
Restatements		0.3
Non-current trade and other payables (restated)	77.7	74.0
Total trade and other payables at 31 March		176.2
Restatements		0.9
Total trade and other payables at 31 March (restated)	181.9	177.1

Borrowings include £1.5 billion (2009-10: £2.2 billion) of bank overdrafts held by local authorities. This balance forms part of the total borrowing of local authorities. They have wide powers to borrow which are enshrined in statute. Their ability to borrow is controlled under a regulatory framework and through the application of the Prudential Code for Capital Finance in Local Authorities and the Code of Practice for Treasury Management in the Public Services which have both been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Refunds of taxation and duties payable incorporate an expectation on taxation refunds.

Trade and other payables are held across a wide range of public sector entities and relate to day to day business delivery costs. The two most significant payables are UK's liability to the IMF of £7.3 billion (2009-10: £8.7 billion) and £4.1 billion (2009-10: £5.2 billion) relating to the financing of the construction of High Speed One (formerly the Channel Tunnel Rail Link). Further details are available in the 2010-11 accounts of the National Loans Fund and the Department for Transport respectively.

Note 24. Government financing and borrowing

	2010-11	2009-10 restated
	£bn	£bn
Amounts falling due within one year:		
Gilt edged securities	54.7	39.1
National Savings & Investment products	98.9	98.8
Treasury bills	63.6	63.0
	217.2	200.9
Amounts falling due after more than one year:		
Gilt edged securities	691.0	580.9
Total at 31 March	908.2	781.8

Gilt-edged securities, or gilts, are UK Government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Prices Index. As the Government's debt manager, the Debt Management Office (DMO) sells gilts to the market to ensure sufficient funding is available to meet the Government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, with the exception of gilts held by funded public sector pension schemes. Gilts have been subject to restatement because the Bank of England Asset Purchase Facility Fund Limited was consolidated in 2010-11 for the first time and it held £184.1 billion (2009-10: £183.8 billion) of gilts for quantitative easing. Further details regarding gilts are available in the 2010-11 Debt and Reserves Management Report and the 2010-11 accounts of the National Loans Fund.

National Savings and Investments (NS&I) products are a range of secure savings and investments, primarily bonds, offered to the public, that are backed by HM Treasury. They provide the Government with a source for financing public spending. Further details of these products, and a copy of NS&I's 2010-11 accounts, can be found on the NS&I website: <http://www.nsandi.com>.

Treasury bills are issued by the DMO and, along with other money market operations, are used to meet the Government's daily cash requirements. Further details on these operations can be found in the 2010-11 Debt and Reserves Management Report.

Note 25. Provisions for liabilities and charges

	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
At 1 April 2009	55.3	13.9	60.4	129.6
Provisions arising during the year	0.9	3.7	7.3	11.9
Provisions utilised during the year	(2.4)	(0.9)	(8.6)	(11.9)
Unwinding of discount	2.7	-	0.6	3.3
Provisions not required written back	0.1	(1.0)	(30.5)	(31.4)
Transfers in-year	0.1	-	-	0.1
At 31 March 2010	56.7	15.7	29.2	101.6
Restatements	-	-	0.6	0.6
At 1 April 2010 (restated)	56.7	15.7	29.8	102.2
Provisions arising during the year	5.3	3.8	14.8	23.9
Provisions utilised during the year	(2.0)	(1.1)	(9.1)	(12.2)
Unwinding of discount	1.1	-	0.5	1.6
Provisions not required written back	(0.2)	(0.9)	(5.1)	(6.2)
Transfers in-year	-	-	(1.2)	(1.2)
At 31 March 2011	60.9	17.5	29.7	108.1

Expected timing of discounted cash flows:	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
Within one year	2.3	2.4	7.3	12.0
Between 1 and 5 years	9.6	4.7	12.9	27.2
Thereafter	49.0	10.4	9.5	68.9
Total future payments	60.9	17.5	29.7	108.1
Current provisions	2.3	2.4	7.3	12.0
Non-current provisions	58.6	15.1	22.4	96.1

Provision for nuclear decommissioning

These financial statements include provisions for the Government's obligations in respect of nuclear liabilities, being the costs associated with the nuclear decommissioning of designated sites of radioactive plant and facilities. These include the costs of: storing, processing and eventual disposal of radioactive waste; reprocessing, or in other ways managing, nuclear fuels and materials; care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials); research and development; and the procurement of capital facilities to handle the various waste streams.

The majority of this provision is recognised by the Nuclear Decommissioning Authority. Its provision represents the best estimate of delivering its objectives of decommissioning the plant and equipment on each designated nuclear licensed site and returning the sites to pre-agreed end states in accordance with its published strategy. This programme of work will take until 2137 to complete. The estimates are necessarily based on assumptions of the processes and methods likely to discharge its obligations, and reflecting the latest technical knowledge available. The Government's obligations are reviewed on a continual basis and provisions are updated accordingly. The provision and recoverable balances are expressed at current price levels and discounted at 2.2 per cent (2009-10: 2.2 per cent), to take account

of the time value of money for the very long timescales over which work will be carried out. Certain expenditure required to discharge nuclear provisions is recoverable from third parties under commercial agreements. The amount recoverable at 31 March 2011 is £4.7 billion (2009-10: £4.6 billion).

Changes in the cost estimates of discharging the provision (representing increases or decreases in future decommissioning costs, less under or overspend of decommissioning delivered in year) are charged to the adjustments to provisions in the Statement of Revenue and Expenditure. This charge includes the impact of restating liabilities from March 2010 values to current price levels, which was previously shown separately within finance costs. The increase in the provision includes an estimated £2.1 billion (2010: £1.7 billion) relating to these changes in price levels.

The provision for nuclear decommissioning was subject to an Emphasis of Matter on uncertainties in the provision in the Audit Opinion of the Comptroller & Auditor General. Further details are available in the 2010-11 accounts of the Nuclear Decommissioning Authority.

Provision for clinical negligence

These financial statements include provisions made for future costs where health service entities are the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence.

Known reported claims are individually valued on the basis of likely costs to resolve the claim and probability factors to take account of the potential for a successful defence. Incurred but not reported claims are valued using actuarial models to predict likely values. The clinical negligence provision included in this account therefore reflects an actuarially determined assessment of incidents that have occurred, including those yet to be reported, where the amount of the claim can be reliably estimated. The amount provided is calculated on a percentage expected probability basis. Expenditure is likely to be incurred over a period of more than 20 years.

Clinical negligence claims which may succeed, but which are less likely or cannot be reliably estimated, are accounted for as contingent liabilities.

In 2010-11, the Department for Health reported that the value of known provisions increased by £1.8 billion since 2009-10 mainly as a result of an increase in the volume of claims of approximately 30 per cent. Following a review of these new claims, it appears that this increase is primarily due to faster reporting patterns rather than a systematic increase in the incidence of reports of clinical negligence.

Other provisions

Other provisions included £4.4 billion (2009-10: £4.9 billion) relating to taxpayers' legal claims against Her Majesty's Revenue & Customs and £2.7 billion (2009-10: £4.2 billion) relating to the Financial Assistance Scheme (FAS). FAS was announced in 2004 to provide assistance to members of defined benefit occupational pension schemes that wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005, before the introduction of the Pension Protection Fund. Since 2004, the scope of the scheme and the levels of assistance have been expanded through additional legislation.

On 20 October 2010, the Government announced, as part of the Spending Review, that an amount in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme. A provision for this amount has been created to cover the payments over the life of the scheme, of which £1 billion will be paid over the first three years of the Spending Review period.

Other provisions include additional future costs arising from compensation payments for termination of employment through redundancy, severance or early retirement, beyond the normal benefit awards for which employees are eligible under the terms of their pension scheme.

Provisions have also been made in relation to injury benefits, medical costs, criminal injuries compensation, legal aid, and capital investment activities. Provisions in relation to capital investment activities included compulsory purchases, claims in respect of structural damage and diminution of value of properties affected by transport schemes.

Note 26. Other financial liabilities

Note 26.1 Other financial liabilities 2010-11

Other financial liabilities include the following:

	Deposits by banks	Banknotes issued in circulation	IMF SDR allocation	Financial Guarantees	Other	2010-11 Total
	£bn	£bn	£bn	£bn	£bn	£bn
Current						
At 1 April 2010	206.3	50.2	10.1	0.1	3.4	270.1
Movements in year	(17.0)	2.0	(0.1)	(0.1)	(0.7)	(15.9)
At 31 March 2011	189.3	52.2	10.0	-	2.7	254.2
Non-current						
At 1 April 2010	-	-	-	6.0	5.5	11.5
Movements in year	-	-	-	(0.8)	(1.5)	(2.3)
At 31 March 2011	-	-	-	5.2	4.0	9.2
Total	189.3	52.2	10.0	5.2	6.7	263.4

Other financial liabilities comprise the following types of financial instruments as at 31 March 2011:

	Carried at amortised cost	Carried at fair value	Held for trading at fair value	2010-11 Total
	£bn	£bn	£bn	£bn
Current				
Deposits by banks	184.6	-	4.7	189.3
Banknotes issued in circulation	52.2	-	-	52.2
IMF SDR allocation	-	-	10.0	10.0
Other	-	2.2	0.5	2.7
Total Current	236.8	2.2	15.2	254.2
Non-Current				
Financial Guarantees	5.0	-	0.2	5.2
Other	0.2	3.8	-	4.0
Total Non-Current	5.2	3.8	0.2	9.2
Total	242.0	6.0	15.4	263.4

Deposits by banks

Deposits by banks and other financial institutions include £154.3 billion (restated 2009-10: £169.9 billion) held by the Bank of England and other deposits repayable on demand of £13.7 billion (restated 2009-10: £5.6 billion).

Deposits by banks include sales and repurchase agreements, where an entity sells securities and receives a deposit, under the understanding that it will buy the securities back at a specified time and price. The largest balance is made up of deposits by banks under sales and repurchase agreements of £11.0 billion (2009-10: £15.2 billion) entered into by the Debt Management Office (DMO) as part of its cash management operations, reflecting the Government's daily cash flows. During 2010-11, the DMO continued to hold large asset and liability balances, as it sought to manage historically large aggregate Exchequer borrowing requirements.

Deposits by banks also include sale and repurchase agreements of £3.2 billion (2009-10: £2.9 billion) entered into by the Exchange Equalisation Account (EEA) to preserve the liquidity and security of the foreign currency reserves and to ensure that the Government maintains its capability to intervene in the foreign exchange market if required, while also minimising the overall cost of holding the foreign currency reserves and ensuring exposure to financial risk is limited. Further details are available in the 2010-11 accounts of the DMO and the EEA.

Banknotes issued in circulation

Banknotes are issued by the Bank of England Issue department. The Bank is responsible for maintaining confidence in the currency, by meeting demand with good-quality genuine banknotes that the public can use with confidence. The average value of notes in circulation over the year ended 28 February 2011 was £48.3 billion. Further details are in the 2010-11 accounts of the Bank of England.

IMF special drawing rights allocation

International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation comprises a liability to the IMF (£10.0 billion (2009-10: £10.1 billion)) for those SDRs that have been allocated to the UK when the country became a participant in the Special Drawing Rights Agreement and that have been allocated subsequently. The UK's SDR allocation is recognised as a liability and the resultant holding of SDRs by the UK is recognised as an asset. Further details are available in the 2010-11 accounts of the EEA.

The IMF SDR allocation is held by EEA and managed on a homogeneous basis, rather than on an individual basis. Although the foreign currency reserves are not held primarily to make a profit, HM Treasury seeks to minimise the cost of holding the reserves whilst avoiding exposing the public purse to unnecessary risk. The SDR allocation is part of the EEA portfolio of financial instruments, which is actively managed against the benchmark to meet the return set by HM Treasury. As a result, the financial assets and liabilities of the EEA, including the SDR allocation, are all "held for trading", in accordance with the definition of IAS 39 *Financial Instruments: Recognition and Measurement*.

Financial guarantees

The Government's financial guarantees include those provided by the Department for Transport to Network Rail (£3.2 billion (2009-10: £3.0 billion)) and those issued to certain depositors in Bradford and Bingley (£0.5 billion (2009-10: £0.6 billion)) and Northern Rock (£0.1 billion (2009-10: £0.1 billion)), and various institutions under the Credit Guarantee Scheme, (£0.9 billion (2009-10: £2.1 billion)). These valuations reflect the fair value of guarantees at 31 March 2011, with the remaining value of the guarantees held as contingent liabilities and disclosed in Notes 32 and 33.

After initial recognition, financial guarantee contracts are recognised at the higher of amortised cost or the best estimate of the probable expenditure required to settle any financial obligation arising at the balance sheet date, in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Thus, if it is more likely than not that additional resources will be needed to settle the obligations under the

contract, i.e. if it more likely than not the guarantee will be called, and if the value of those resources is higher than the amortised cost, then this higher value will be used.

As well as guarantees, the Government provided indemnities as described in Notes 32 and 33.

Other

Other financial liabilities include £5.0 billion (restated 2009-10: £4.1 billion) of foreign currency bonds issued by the Bank of England. Other current financial liabilities include £1.2 billion (2009-10: £1.9 billion) of derivative financial liabilities held by the Exchange Equalisation Account comprising currency swaps, foreign exchange transactions and interest rate swaps used to manage its risk in the trading portfolios.

Note 26.2 Other financial liabilities 2009-10

Other financial liabilities include the following:

	Deposits by banks	Banknotes issued in circulation	IMF SDR allocation	Financial Guarantees	Other	2009-10 restated
	£bn	£bn	£bn	£bn	£bn	£bn
Current						
As at 31 March 2010	18.1	-	10.1	-	8.1	36.3
Restatements	188.2	50.2	-	0.1	(4.7)	233.8
At 31 March 2010 (restated)	206.3	50.2	10.1	0.1	3.4	270.1
Non Current						
As at 1 April 2009	-	-	-	11.6	0.4	12.0
Additions	-	-	-	1.5	1.4	2.9
Disposals	-	-	-	(0.1)	(0.1)	(0.2)
Repayments	-	-	-	-	(0.3)	(0.3)
Revaluation	-	-	-	(0.3)	(0.3)	(0.6)
Impairments	-	-	-	(1.7)	-	(1.7)
Reclassification	-	-	-	(5.0)	0.2	(4.8)
As at 31 March 2010	-	-	-	6.0	1.3	7.3
Restatements	-	-	-	-	4.2	4.2
At 31 March 2010 (restated)	-	-	-	6.0	5.5	11.5
Total	206.3	50.2	10.1	6.1	8.9	281.6

*2009-10 restatements are driven by the consolidation of the Bank of England in the 2010-11 accounts for the first time

Other financial liabilities comprise the following types of financial instruments as at 31 March 2009-10:

	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2009-10 Total £bn	2009-10 Restated Total £bn
Current					
Deposits by banks	15.2	-	2.9	18.1	206.3
Banknotes in circulation	-	-	-	-	50.2
IMF SDR allocation	-	-	10.1	10.1	10.1
Financial Guarantees	-	-	-	-	0.1
Other	2.9	0.3	4.9	8.1	3.4
Total Current	18.1	0.3	17.9	36.3	270.1
Non-Current					
Financial Guarantees	6.0	-	-	6.0	6.0
Other	-	1.3	-	1.3	5.5
Total Non-Current	6.0	1.3	-	7.3	11.5
Total	24.1	1.6	17.9	43.6	281.6

Note 27. Net public service pension liability

The Government operates a range of defined benefit pension schemes for public servants. The arrangements for individual schemes vary according to the specific circumstances of the scheme. Schemes may be funded or unfunded and may be administered by government departments, devolved administrations or other public entities (such as local authorities) or independent trustees. Information that applies generally to the principal schemes is provided in this note. Information on the specific schemes can be found in the Annual Report of the responsible entities.

Other than as described below, the cash required to meet the payment of pensions is met from employer and employee contributions with any shortfall financed by the Exchequer.

27.1 Pension scheme liability

Total net pension scheme liability at 31 March 2011

	Unfunded schemes £bn	Funded schemes £bn	Total £bn	2009-10 Restated Total £bn
Gross liability	893.3	274.4	1,167.7	1,328.0
Gross assets	-	(208.2)	(208.2)	(193.3)
Net liability	893.3	66.2	959.5	1,134.7

Analysis of movement in the total net pension scheme liability

		2010-11			2009-10		
	Note	Unfunded (gross) £bn	Funded (net) £bn	Total £bn	Unfunded (gross) £bn	Funded (net) £bn	Total £bn
Liability at 1 April		1,019.0	115.7	1,134.7	735.3	66.7	802.0
Current Service Costs	27.5	33.1	7.3	40.4	22.9	4.6	27.5
Past service costs, including indexation adjustment	27.5	(104.6)	(21.4)	(126.0)	0.7	-	0.7
Settlements/curtailments	27.5	-	(0.3)	(0.3)	-	0.3	0.3
Interest on scheme liabilities	27.5	44.6	16.2	60.8	45.0	13.9	58.9
Expected return on scheme assets	27.5	-	(13.0)	(13.0)	-	(9.0)	(9.0)
Contribution by scheme participants		-	(8.0)	(8.0)	-	(8.0)	(8.0)
Actuarial (gains)/losses	27.6	(69.9)	(30.0)	(99.9)	238.6	48.2	286.8
Benefits paid		(28.9)	-	(28.9)	(26.9)	-	(26.9)
Transfers in/out		-	(0.3)	(0.3)	-	-	-
Liability at 31 March					1,015.6	116.7	1,132.3
Restatement					3.4	(1.0)	2.4
Liability at 31 March (restated)		893.3	66.2	959.5	1,019.0	115.7	1,134.7

The pension liability only relates to public service pension liabilities for employees and former employees of the public sector, with a small component for other approved organisations that qualify for membership of these government schemes. State retirement pensions are outside the scope of the IAS 19 'Employee Benefits' pension liability as they are paid to the general public, and are not employee benefits for public sector staff.

'Current service costs' are the increase in the present value of the scheme liabilities arising from current members' service in the current period. They are determined by the individual scheme actuaries and are calculated using the discount rate at the start of the year. The rate reduced from 3.2 per cent as at 31 March 2009 to 1.8 per cent as at 31 March 2010, leading to an increase in costs compared to the previous year.

'Past service costs' are increases/decreases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change, or improvement to retirement benefits. In the Budget Statement of 22 June 2010 the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all government reporting entities where RPI has been used for inflation indexing.

'Interest on scheme liabilities' is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Revenue and Expenditure. The interest cost is based on the discount rate, including inflation, and is calculated on the gross liability of unfunded schemes (which is shown gross) and the gross liability of funded schemes (which is shown net of assets).

'Actuarial losses' comprise the effects of differences between the actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions. They are accounted for through reserves as required by the FReM. An actuarial gain of £99.9 billion (2009-10: loss of £286.8 billion) has been recognised. This is due to a change in the discount rate used by central government schemes and changes in underlying assumptions, such as mortality rates and projected salary increases.

Note 1.22.5 sets out the key assumptions in determining the pension liability.

The unfunded pension liability includes the Principal Civil Service Pension Scheme (PCSPS). The Cabinet Office Civil Superannuation 2010-11 Accounts report the financial results of the PCSPS and a number of other small public sector pension schemes. These accounts were qualified by the Comptroller & Auditor General in respect of the pension liability on the basis that the Scheme's membership records presented to him at the time of signing the accounts provided insufficient evidence to support the pension liability.

27.2 Unfunded schemes

The significant unfunded schemes are the Principal Civil Service Pension Scheme, NHS Pension Schemes, Armed Forces Pension Scheme and Teachers Pensions Scheme. The significant local government pension schemes are the Police Pension Scheme and the Firefighters Pension Scheme. These are unfunded, defined benefit, occupational pension schemes, the majority of which are contributory. Employer entities, such as government departments, NHS entities, local authorities (including police and fire authorities) and education institutions, recognise the expected cost of these elements on a systematic and rational basis over the period during which they benefit from employees' services, by payment to the scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme. In respect of the defined contribution schemes, employing entities recognise the contributions payable for the year.

Public service pension schemes carry out full actuarial valuations periodically. Between full valuations, annual updates are made to the liabilities to reflect current conditions. Contribution rates are set to meet the cost of the benefits accruing during 2010-11 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Scheme liabilities reflect the expected future benefit payments arising in respect of both current and deferred pensioners and currently active members of the scheme. Benefits are paid as they fall due and are guaranteed by the employer.

The administration of the Police Pensions Scheme and the Firefighters Pension Scheme is the responsibility of the separate police and fire authorities and regional local authorities that provide a police or fire service. Each individual employer authority that contributes to these schemes recognises their proportion of the liabilities in their Statement of Accounts. The scheme liability in WGA is the aggregate of amounts reported in the Statement of Accounts of the individual authority employers, and the amounts reported by the Northern Ireland Police Pension Scheme and Northern Ireland Fire and Rescue Service.

27.3 Funded schemes

Funded Pension Schemes are shown on a net liability basis (or net asset where the total scheme asset balance exceeds the gross liability). This means that scheme assets are deducted from the gross pension liability balance. Changes in scheme assets in the year are included within actuarial gains and losses.

The Local Government Pensions Scheme (LGPS) is the largest funded scheme. The LGPS (England and Wales) consists of around 89 separately administered Funds, with the LGPS (Scotland) having a further

ten funds. Under the LGPS Regulations each Fund is subject to an independent actuarial valuation every three years. The individual local authority employers that contribute to these Funds recognise their proportion of the scheme liabilities in their Statement of Accounts. The 'local government funded schemes' balance disclosed in Note 27.4 below includes the portion of the pension liability of the LGPS that is reported in the financial accounts of the individual local authority employers.

An analysis of the in-year movement in funded pension schemes' gross obligations and gross assets is provided below.

Analysis of movement in the funded pension schemes' gross obligations

	<i>Note</i>	2010-11
		£bn
Gross liability at 1 April		309.0
Current Service Costs	27.1	7.3
Past service costs	27.1	(21.4)
Interest on scheme liabilities	27.1	16.2
Contribution by scheme participants		2.4
Actuarial (gains)/losses		(29.2)
Benefits paid		(9.0)
Settlements/curtailments		(0.6)
Transfers in/out		(0.3)
Gross liability at 31 March		274.4

Analysis of movement in the funded pension schemes' gross assets

	<i>Note</i>	2010-11
		£bn
Gross assets at 1 April		(193.3)
Expected rate of return on scheme assets	27.5	(13.0)
Actuarial gains and losses	27.6	(0.8)
Contributions by employers and scheme participants		(10.4)
Benefits paid		9.0
Assets distributed on settlements	27.5	0.3
Gross assets at 31 March		(208.2)

Of the 605 bodies which participate in funded schemes, 21 (2009-10: 10) have reported a net pension asset, which collectively amounts to £0.8 billion (2009-10: £0.4 billion). The funded pension schemes hold a range of assets including gilts as part of their investment portfolio. Gilts held by these pension schemes have not been eliminated during the consolidation process outlined in Note 1.5.

The 'Contributions by employer (funded pension schemes)' balance reflects the increase in scheme assets due to payments made into the scheme by the employer as a consequence of scheme requirements to fund any deficit of scheme assets compared to the total scheme liability. These contributions therefore exceed the current service costs for those schemes.

'Benefits paid' on funded schemes impact on both the gross liability and the scheme assets and so have a mainly neutral impact on the net liability.

Analysis of funded pension scheme assets

The assets in core local authority funded schemes and the associated expected long-term rates of return were:

	2010-11 Value £bn	2009-10 Value £bn	2010-11 Expected rate of return %	2009-10 Expected rate of return %
Equities	103.9	96.4	6.40% - 8.50%	6.50% - 8.60%
Bonds	23.4	23.3	2.41% - 6.90%	4.00% - 6.80%
Other	19.9	18.7	0.50% - 10.10%	0.50% - 9.45%
Total Market value	147.2	138.4		

This balance is comprised of local authority funded schemes that reported assets on an individual basis rather than for the Local Government Pension Scheme as a single entity.

The 'Other' balance consists of property, cash and other alternative assets, such as hedge funds and private equity or infrastructure investments, which have varying levels of performance. This mix of assets leads to a broad range for the rate of return on assets at the WGA level. The 0.5% reflects the lower expected return on cash, while the alternative assets can achieve much higher returns.

27.4 Analysis of the pension liability by type of scheme

	2010-11 £bn	2009-10 £bn	2010-11 Percentage of Liability	2009-10 Percentage of Liability
Unfunded schemes (gross)				
Teachers (UK)	222.8	258.2	23%	23%
NHS (UK)	292.3	328.7	31%	29%
Civil Service	145.0	163.5	15%	14%
Armed Forces	99.7	120.7	10%	11%
Police	93.8	101.6	10%	9%
Fire	19.8	21.1	2%	2%
Other unfunded	19.9	21.8	2%	2%
	893.3	1,015.6	93%	90%
Funded schemes (net)				
Local Government	57.1	100.4	6%	9%
Other funded	9.1	16.3	1%	1%
	66.2	116.7	7%	10%
Total	959.5	1,132.3	100%	100%

The 'Police' and 'Fire' balances include the amounts reported by designated police and fire authorities, the Northern Ireland Police Pension Scheme, and the Northern Ireland Fire and Rescue Service. A number of local authorities that are not specifically police or fire authorities have staff in the Police and Fire Pension Schemes, and recognise their proportion of the scheme liabilities in their Statement of Accounts, which is included in the 'Other unfunded' balance above.

Local authorities account for £7.2 billion (2009-10: £7.8 billion) of the 'Other unfunded' balance, which predominantly relates to the Police and Fire Pension Schemes.

The 'Other unfunded' balance also includes amounts accounted for by the United Kingdom Atomic Energy Authority Pension Scheme (£5.1 billion (2009-10: £6.0 billion)), the Research Councils Pension

Scheme (£3.0 billion (2009-10: £3.5 billion)), the Judicial Pension Scheme (£2.2 billion (2009-10: £2.4 billion)), and the Department for International Development Overseas Superannuation (£1.1 billion (2009-10: £1.3 billion)). The 'Other funded' balance includes net pension liabilities for Royal Mail (£4.5 billion (2009-10: £8.0 billion)), BBC (£0.9 billion (2009-10: £1.6 billion)), the National Probation Service (£0.8 billion (2009-10: £1.4 billion)), the Department for Environment, Food and Rural Affairs and the Environment Agency closed and active funds (£0.8 billion (2009-10: £1.6 billion)), and Railways Pensions accounted for by Department for Transport (£1.0 billion (2009-10: £1.2 billion)).

The 'local government funded schemes' balance includes the portion of the pension liability of the Local Government Pension Scheme ("LGPS") that is reported in the financial accounts of the individual local authority employers. This represents the material majority of the pension liability of LGPS and excludes the portion that relates to employers that are outside the WGA boundary, as that portion of the liability is the responsibility of the non-government employers.

27.5 Amounts recognised in the Statement of Revenue and Expenditure

	2010-11 £bn	2009-10 £bn
Current service cost	40.4	27.5
Past service cost including pension indexation adjustment	(126.0)	0.7
Losses on settlements and curtailments	(0.3)	0.3
Interest on pension scheme liabilities	60.8	58.9
Expected return on funding pension schemes' assets	(13.0)	(9.0)

27.6 Amounts recognised in the Statement of Changes in Taxpayers' Equity

	2010-11 £bn	2009-10 £bn
Actual return less expected return on scheme assets	(0.8)	(16.7)
Experience gains and losses arising on liabilities	(30.4)	45.4
Changes in assumptions underlying the value of liabilities	(68.7)	258.1
Actuarial (gain)/loss on pension liabilities	(99.9)	286.8

'Actual return less expected return on scheme assets' and 'Experience gains and losses arising on liabilities' comprise differences between actual events as they have occurred and the assumptions that were made at the time of a previous valuation. These assumptions are inherently uncertain and therefore can show significant movements from year to year.

'Changes in underlying assumptions' are driven by a range of factors such as mortality rates and salary increases, and the discount rate for central government schemes which went from 1.8 per cent in 2009-10 to 2.9 per cent in 2010-11. As set out in the FRoM, and required by IAS 19, the discount rate for central government schemes is determined by those responsible for the management of the individual pension fund based on yields of high quality corporate bonds (in practice a AA corporate bond rate) determined by the Government Actuary's Department.

Note 28. Capital commitments

Capital commitments comprise future commitments to capital expenditure which are contracted for but not provided for in the financial statements. Capital commitments for the acquisition of property, plant and equipment and intangible assets for which no provision has been made in these financial statements amounted to £44.0 billion (2009-10: £51.3 billion).

Capital commitments were made by a range of public sector entities as they became a party to contracts for capital expenditure for property, plant and equipment or intangible fixed assets. Details of significant capital commitments are provided below, and the remainder are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

Entity	Description of contracted capital commitment	2010-11 Commitment £bn	2009-10 restated Commitment £bn
Ministry of Defence	Commitments in relation to property, plant and equipment (£16.6 billion (2009-10: £20.5 billion)) and intangible fixed assets (£1.5 billion (2009-10: £2.7 billion))	18.1	23.2
Transport for London	Contracts placed for London Underground projects	4.8	2.4
Entities within the National Health Service and the Department of Health	Commitments in relation to IT, purchase of property, plant and equipment and intangible assets, a significant portion of which relates to contracts entered into for the delivery of the National Programme for IT	3.3	4.4
Scottish Government	Commitments in relation to the purchase of property, plant and equipment and intangible assets	1.6	2.3
Olympic Delivery Authority	Commitments in relation to the purchase of property, plant and equipment	0.7	1.3
Department for Transport	Commitments in relation to the purchase of property, plant and equipment and intangible assets	0.4	1.1

Note 29. Commitments under leases

29.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below analysed according to the period in which the lease expires.

	Land £bn	Buildings £bn	Other leases £bn	2010-11 Total £bn
Obligations under operating leases comprise:				
Total payments within 1 year	0.3	1.7	1.0	3.0
Total payments between 1 and 5 years	0.9	5.1	1.4	7.4
Total payments thereafter	1.8	9.0	0.7	11.5
TOTAL future minimum lease payments under operating leases	3.0	15.8	3.1	21.9

	Land £bn	Buildings £bn	Other leases £bn	2009-10 restated Total £bn
Obligations under operating leases comprise:				
Total payments within 1 year	-	1.4	1.2	2.6
Total payments between 1 and 5 years	0.2	4.2	2.5	6.9
Total payments thereafter	0.4	7.1	2.7	10.2
TOTAL future minimum lease payments under operating leases	0.6	12.7	6.4	19.7

Current year operating lease costs are disclosed in Note 11 to the Accounts. A large portion of operating leases are in the defence and education sectors.

29.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

	Land £bn	Buildings £bn	Other leases £bn	2010-11 Total £bn
Obligations under finance leases comprise:				
Total payments within 1 year	0.1	0.3	0.7	1.1
Total payments between 1 and 5 years	0.2	1.1	1.8	3.1
Total payments thereafter	9.1	12.9	1.9	23.9
Total	9.4	14.3	4.4	28.1
Less interest element	(8.5)	(10.9)	(1.8)	(21.2)
TOTAL future minimum lease payments under finance leases	0.9	3.4	2.6	6.9

	Land £bn	Buildings £bn	Other leases £bn	2009-10 restated Total £bn
Obligations under finance leases comprise:				
Total payments within 1 year	0.1	0.4	0.7	1.2
Total payments between 1 and 5 years	0.2	0.9	2.2	3.3
Total payments thereafter	9.3	10.3	1.1	20.7
Total	9.6	11.6	4.0	25.2
Less interest element	(8.1)	(9.4)	(1.0)	(18.5)
TOTAL future minimum lease payments under finance leases	1.5	2.2	3.0	6.7

Current year finance charges in respect of finance lease are disclosed in Note 13 alongside PFI interest. Finance leases are predominately in defence and broadcasting.

There were some reclassification of leases between land, buildings and other in 2010-11 compared to 2009-10. These are detailed in Note 39 'Prior period adjustments'.

Note 30. Commitments under PFI contracts

PFI assets are recognised on the Statement of Financial Position where the Government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract. Where WGA entities have entered PFI contracts but do not meet the control criteria, the assets provided as part of the contract are not recognised in these accounts and the costs are recognised when they are incurred. Further detail of PFI projects with central government support is available on the Treasury website at www.hm-treasury.gov.uk/ppp_index.htm. The website currently includes data provided by central government departments as at November 2011.

Note 30.1 PFI contracts recognised on the Statement of Financial Position

The net book value of PFI assets included in the Statement of Financial Position was £34.9 billion (2009-10: £30.9 billion) as at 31 March 2011. The assets were accounted for in a manner consistent with other assets of that type. The PFI liability for the present value of capital amounts payable included in the Statement of Financial Position was £32.0 billion (2009-10: £28.1 billion).

The substance of these contracts is that the government has a number of finance leases which comprise of two elements: imputed finance lease charges and service charges. Details of these charges are in the note below.

Obligations for future periods arise in the following periods:	2010-11	2009-10 restated
	£bn	£bn
No later than one year	3.7	3.1
Later than one year and not later than five years	14.6	12.7
Later than five years	55.8	51.7
Gross present value of future obligations	74.1	67.5
Less finance charges allocated to future periods	(39.0)	(33.4)
Net present value of future obligations	35.1	34.1
Plus: service charges due in future periods	109.5	97.4
Total future obligations	144.6	131.5
Total number of PFI contracts	706	678

Future obligations later than five years may arise for another 30 to 50 years, depending on the individual contract. The net present value of future obligation of £35.1 billion (2009-10: £34.1 billion), excluding service charges, was different from the liability recognised on the Statement of Financial Position of £32.0 billion (2009-10: £28.1 billion) for a number of reasons. Some WGA entities included costs such as contingent rents and lifecycle replacement costs in future obligations but not in the liability figure. Some WGA entities also reported future obligations but had not recognised a liability as an asset had not yet been commissioned.

The total number of PFI contracts recognised on the Statement of Financial Position and the gross present value obligations by segment are:

	2010-11	2010-11	2009-10	2009-10
	Number of	Value	restated	restated
	contracts	£bn	Number of	Value
			contracts	£bn
Central Government	233	22.1	237	20.4
Entities within the NHS ¹	108	17.9	129	14.4
Subtotal of Central Government Departments	341	40.0	366	34.8
Local Authorities	351	32.8	301	31.8
Public Corporations	14	1.3	11	0.9
Total	706	74.1	678	67.5

1. PFI contracts included in "Entities within the NHS" comprise those entered into by Foundation Trusts and Non-Foundation Trusts.

Details on PFI contracts are available in the individual accounts of WGA entities.

Major PFI liabilities that have been recognised for the first time in 2010-11 include a number of new Foundation (£1.0 billion) and Non-Foundation (£0.7 billion) Trust hospitals, and major road assets (£0.3 billion).

A summary of the PFI contracts recognised on the Statement of Financial Position with a capital value (excluding interest) greater than £0.5 billion is provided below.

Entity	Description of PFI contract	Contract start date	Contract end date
Greater Manchester Waste Authority	PFI contract for the construction maintenance and operation of 42 new waste disposal facilities in the Greater Manchester area.	Apr-2009	Mar-2034
Department for Transport	Maintain and operate the M25 Orbital route, and widen most of the remaining 3 lane sections to 4 lanes.	Dec-2008	Nov-2038
Department for Work and Pensions	Maintenance and management of the departmental estate	Apr-1998	Mar-2018
Department of Health	Redevelopment, maintenance and operation of the cardiac and cancer facilities at Barts and the London NHS Trust	Mar-2010	Apr-2048
Department of Health	Provision of acute hospital facilities and maintenance and operation of University Hospital Birmingham NHS Foundation Trust.	Jun-2006	Aug-2046
Department of Health	Construction, maintenance and operation of new Saint Mary's Hospital in Greater Manchester.	May-2009	Apr-2047
Ministry of Defence	PFI to provide and maintain air-to-air refuelling and passenger air transport capabilities.	Mar-2008	Mar-2035
Ministry of Defence	Range of satellite services, including management of existing Skynet 4 satellites.	Oct-2003	Feb-2020

Ministry of Defence	Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-2006	Apr-2041
Ministry of Defence	Redevelopment and maintenance of Colchester Garrison to provide accommodation and associated services.	Feb-2004	Feb-2039

Note 30.2 PFI contracts not recognised on the Statement of Financial Position

During the 2010-11 financial year, a number of WGA entities had PFI contracts which were not recognised on the Statement of Financial Position because the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these contracts in their accounts in different ways, as the FReM allows flexibility as to how to present the information. Therefore it is not possible to provide a summary of all these PFI contracts.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in 2010-11 WGA that are not already consolidated.

The most significant PFI contract not recognised in this account, in line with the policy above, was an arrangement to design, build and operate a secure national digital radio network for the use of the UK's emergency and public safety services, with Airwave Solutions Ltd responsible for providing the service until 2020. The future service charges payable to Airwave are estimated to be £1.9 billion (2009-10: £2.0 billion). Airwave is used by the National Policing Improvement Agency, which pays the core service charges, as well as fire and ambulance services, and other public sector organisations. Airwave is not recognised on the Statement of Financial Position of any WGA entity under IFRIC 12 *Service Concession Arrangements*, as no single WGA entity controls access to the service or individually uses a significant amount of the output. Further details are available in the 2010-11 accounts of the National Policing Improvement Agency, which can be found on the website: www.npia.police.uk.

Note 31. Other financial commitments

Some WGA entities entered into other non-cancellable contracts that are not leases or PFI contracts. These financial commitments were made by a range of public sector entities. Future payments in relation to these commitments totalled £60.9 billion (restated 2009-10: £68.2 billion) and consisted of £49.3 billion (restated 2009-10: £56.4 billion) for central government, £5.3 billion (restated 2009-10: £5.1 billion) for local government and £6.3 billion (restated 2009-10: £6.7 billion) for public corporations.

Details of significant commitments are provided below, and all other financial commitments are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

Entity	Description of commitment	2010-11 Commitment £bn	2009-10 Restated Commitment £bn
Department for Transport	Amounts payable to train operating companies under franchise agreements for the period up to 2013-2014	11.1	14.9
Higher Education Funding Council for England	Grant commitments for the period April to July 2011 and subsequent academic years	10.3	10.1
HM Treasury	Loan to Ireland	3.2	-
	New equity/loans into Northern Rock and increasing the available working capital loan in Bradford and Bingley	-	6.2
Department of Health	Service contracts entered into by Connecting for Health for the delivery of a NHS National Programme for Information Technology, to be fulfilled over the next five years	4.7	3.4
British Broadcasting Corporation	Fixed payments for long term outsourcing arrangements	3.3	3.4
	Programme acquisitions and rights	1.1	1.2
Young Persons Learning Agency and Skills Funding Agency	Grants payable to colleges and schools for further education participation, school sixth form funding and capital project support, mostly related to the remaining months of the academic year from April to July 2011 (August 2011 for Academies)	4.0	4.1
Scottish Government	Amounts payable to Network Rail and First Scotrail in accordance with Deeds Of Grant and Franchise Agreements	2.3	3.2
Engineering and Physical Sciences Research Council	Research and training grants	2.0	2.0
Commonwealth Development Corporation	Subscriptions to debentures, loans and shares	1.4	1.6
Ministry of Justice	Commitments in respect to a number of non-cancellable contracts	1.4	0.6
Department for Communities and Local Government	Commitments in respect to a number of non-cancellable contracts	1.2	0.5
Home Office	Service contracts entered into by the Identity and Passport Service and the UK Border Agency	0.7	1.4

Note 32. Contingent assets and liabilities disclosed under IAS 37

32.1 Quantifiable contingent assets

A number of WGA entities have quantifiable contingent assets discloseable under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which total £0.8 billion (restated 2009-10: £0.5 billion). The contingent assets are individually not material to WGA. Details of those contingent assets are available in the individual accounts of WGA entities.

32.2 Quantifiable contingent liabilities

The Government has a number of quantifiable contingent liabilities discloseable under IAS 37. Total quantifiable contingent liabilities reported by category are as follows:

	2010-11	2009-10
	£bn	restated £bn
Financial stability interventions	9.8	9.7
Export guarantees and insurance policies	9.7	9.0
Clinical negligence	7.9	7.5
Taxes subject to challenge	9.7	5.5
Supporting international organisations	0.7	1.9
Other	11.7	7.8
Total quantifiable contingent liabilities	49.5	41.4

Details of significant quantifiable contingent liabilities are provided below, and all other financial commitments are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

	Quantifiable contingent liabilities	2010-11 Potential liabilities £bn	2009-10 Potential liabilities restated £bn
Financial stability intervention: RBS	To ensure that RBS is properly and robustly secured in a downturn, HM Treasury has made available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum. This commitment is in place for 5 years, until 22 December 2014, but can be ended early by the bank with the consent of the Financial Services Authority. The contingent capital would, if drawn down, be injected in tranches in the form of B-shares, should the core tier one capital ratio of RBS fall below 5 per cent. As at 31 March 2011, no contingent capital had been drawn down.	8.0	8.0
Financial stability intervention: Northern Rock	HM Treasury has confirmed to the FSA its intention to take appropriate steps (should they prove necessary) to ensure that Northern Rock (Asset Management) plc will continue to operate above the minimum regulatory capital requirements.	1.6	1.7

	Quantifiable contingent liabilities	2010-11 Potential liabilities £bn	2009-10 Potential liabilities restated £bn
Export guarantees and insurance policies	The Export Credits Guarantee Department supported exports and investments through issuing and renewing guarantees and insurance policies. It issues guarantees and insurance against loss for or on behalf of exporters of goods and services and overseas investors from the UK, and supports the provision of Fixed Rate Export Finance.	9.7	9.0
Clinical negligence	A number of WGA entities have reported a contingent liability where they are the actual or potential defendant in an action regarding alleged clinical negligence. The Department of Health is the actual or potential defendant in several actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is large degree of uncertainty as to the Department's liability and to the amounts involved.	7.9	7.5
Legal proceedings against HMRC	HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. Depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax. There are many risks and uncertainties in assessing both the number and value of contingent liabilities; this assessment is drawn up using the Department's experience of litigation and forming judgements on its chances of success. Legal cases are unpredictable and no assurance can be given that the amount will not exceed that shown.	9.7	5.5
Consequences of oil field decommissioning on Petroleum Revenue Tax	The estimated contingent liability for the Petroleum Revenue Tax cost of oil field decommissioning to the Exchequer over the period 2011 to 2040 based on an estimated of total decommissioning costs to the industry which can be carried back indefinitely to set-off against assessable profit arising during the life of the oil and gas fields.	5.0	Not quantified
Crossrail funding and delivering	To support the delivery of the Crossrail project, the Department for Transport has provided indemnities to parties carrying risks that they would be unable to bear.	2.6	1.0
Supporting International organisations	The Department for International Development has reported contingent liabilities in respect of contributions it expects to pay to international organisations which have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.	0.7	1.9

Other

Other quantifiable contingent liabilities have been reported by a number of WGA entities. With the exception of the contingent liabilities described below the remaining quantifiable contingent liabilities are made up of liabilities which individually are not material to WGA. Details of those liabilities are available in the individual accounts of WGA entities.

The Ministry of Defence has provided an indemnity to contractors in respect of nuclear risk and decontamination of around £0.3 billion (2009-10: £0.5 billion).

32.3 Non-quantifiable contingent liabilities

The Government has entered into a number of contingent liabilities where the quantum of the liability can either not be determined with reasonable certainty or to quantify it would jeopardise the outcome of the case. The details of the most significant non-quantifiable contingent liabilities are outlined below. The remaining non-quantifiable contingent liabilities are made up of liabilities which individually are not significant to WGA. Details of those liabilities are available in the accounts of individual WGA entities.

Legal claims

Non-quantifiable contingent liabilities have arisen as a result of a number of legal claims, compensation claims and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Commitments in relation to pension scheme deficits

Non-quantifiable contingent liabilities have arisen as a result of commitments made by several WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded.

Indemnities in relation to financial stability interventions

HM Treasury has guaranteed indemnities provided by Northern Rock plc and Northern Rock (Asset Management) plc, Bradford & Bingley, Deposits Management (Heritable) Limited, Infrastructure Finance Unit Limited, and United Kingdom Asset Resolution Limited, to their appointed directors (in Bradford & Bingley's case for the directors appointed post public ownership) against liabilities and losses in the course of their actions whilst these entities are in public ownership. In addition, HM Treasury has confirmed to the Financial Services Authority its intention to take appropriate steps, should it prove necessary, to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements.

Compensation schemes

Compensation schemes were established in 2008 in relation to Northern Rock plc and Bradford & Bingley plc. Under the schemes, an independent valuer assessed if any compensation was payable by HM Treasury to former shareholders of Northern Rock plc and Bradford & Bingley plc and others, and in 2010 he concluded that no compensation is payable. Any affected party had to write to request the valuer to reconsider his assessments, and could refer his revised assessments to the Financial Services and Markets Tribunal. The valuer issued revised assessment notices upholding his view that the amount payable to former shareholders was nil. A number of former Northern Rock shareholders disputed the Northern Rock assessment and referred the case to the Upper Tribunal where a hearing took place between 31 May and 6 June 2011. The Tribunal's decision, upholding the assessment of the independent valuer was issued on 6 October 2011. Maximum potential liabilities under this intervention are considered unquantifiable.

A compensation scheme was established in 2009 in relation to the Dunfermline Building Society. Under the order, HM Treasury is liable to pay to specified third parties any amount of compensation determined to be payable by an independent valuer, and is required to set up an Appointment Panel responsible for appointing the independent valuer. HM Treasury has indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred by Panel members in connection with or arising from their membership of the Panel and the performance of the Panel's functions. Maximum potential liabilities under these interventions are considered unquantifiable.

Contingent liabilities for reinsurance arising from acts of terrorism

Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). HM Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. Maximum potential liabilities under this arrangement are considered unquantifiable.

Civil nuclear liabilities

The Government has a range of civil nuclear liabilities arising through its association with the United Kingdom Atomic Energy Authority and British Nuclear Fuels Limited as well as ensuring that Government complies with its obligations under the various international nuclear agreements and treaties.

Financial Assistance Scheme

In December 2007, the Government announced its intention for the Financial Assistance Scheme (FAS) to take over payments of some fully funded private sector pensions and other associated benefits in qualifying schemes and, in return, to take the assets of those pension schemes into Government (the FAS Review of Assets estimated the value of these assets to be £1.7 billion). Further regulations came into force on 2 April 2010 which enable the transfer of assets remaining in FAS qualifying schemes to the Government. As a result, the liabilities associated with FAS will increase as the assets transfer from individual schemes to Government. The provision recognised in the Statement of Financial Position has increased by £50 million for liabilities associated with the assets transferred in 2010-11.

Contingent liabilities arising from rail franchising agreements

Agreements were entered into by the Director of Passenger Rail Franchising (novated to the Strategic Rail Authority and then to the Department for Transport), prior to the privatisation of each of the three rolling-stock companies. It is not possible to quantify the liabilities associated with these agreements because they will depend on the circumstances that arise at this time.

Guarantees were given by the Strategic Rail Authority (and previously by the Director of Passenger Rail Franchising), and novated to the Department for Transport, in relation to new, replacement and extended passenger rail franchise agreements. It is not possible to quantify the potential liability that might arise as a result of these undertakings.

Contingent liability in relation to the Channel Tunnel

The Department for Transport has a statutory liability under the Channel Tunnel Act 1987 that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the Tunnel will not be resumed in the near future, necessary steps shall be taken to ensure that the land is left in a suitable condition in accordance with the scheme.

Service Life Insurance

The Government provides access to life insurance for Ministry of Defence service personnel through Service Life Insurance. Details of the scheme and key features can be found at: www.servicelifeinsurance.co.uk.

Note 33. Remote contingent liabilities reported to Parliament

Government departments disclose contingent liabilities under requirements that are more stringent than those applicable to commercial entities under accounting standards. They disclose contingent liabilities for which the risk of crystallisation is greater than remote but not probable. In addition, they also disclose contingent liabilities for which the risk of crystallisation is remote, and which have been reported to Parliament in accordance with the HM Treasury guidance provided in Managing Public Money because as guarantees, indemnities and letters of comfort they expose the taxpayer to financial risk. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

Remote contingent liabilities are measured initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability.

33.1 Remote quantifiable contingent liabilities reported to Parliament

The full potential costs of the Government's remote contingent liabilities are as follows:

	1 April 2010 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2011 £bn
Guarantees	245.9	4.2	-	(18.0)	232.1
Indemnities	184.0	7.8	-	(50.3)	141.5
Letters of comfort	4.1	-	-	(0.1)	4.0
TOTAL	434.0	12.0	-	(68.4)	377.6

	1 April 2009 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2010 Restated £bn
Guarantees	359.4	34.8	-	(148.3)	245.9
Indemnities	487.9	8.2	-	(312.1)	184.0
Letters of comfort	4.1	-	-	-	4.1
TOTAL	851.4	43.0	-	(460.4)	434.0

Restatements are primarily due to Bank of England quantitative easing measures which are now consolidated. Further details are provided in Note 39.

Details of the most significant quantifiable guarantees, indemnities and letters of comfort for which the risk of crystallisation is remote, and which have been reported to Parliament, are outlined below. The remaining remote quantifiable contingent liabilities are made up of liabilities which individually are not material to WGA. Details of those liabilities are available in the individual accounts of WGA entities.

	Remote quantifiable contingent liabilities: Guarantees	2010-11 Potential liabilities £bn	2009-10 Potential liabilities restated* £bn
Credit Guarantee Scheme	The Credit Guarantee Scheme was put in place as part of the financial support to the banking sector announced on 8 October 2008. It provides a government guarantee for new short and medium term debt issuance to eligible institutions. The Scheme became operational on 13 October 2008 and closed to new issuance on 28 February 2010. £0.9 billion (2009-10: £2.1 billion) of the contingent liabilities are carried at fair value on the Statement of Financial Position at 31 March 2011.	115.0	125.0
European Investment Bank (EIB) – callable capital subscription	The EIB financial statements at 31 December 2010 show the UK is liable for £31.6 billion of callable capital to the EIB. Under Article 5 of the EIB Statute, the Board of Directors may call upon each Member State to pay its share of the balance of the subscribed capital should the Bank have to meet its obligations. Current market conditions notwithstanding, it is unlikely Members States will be called upon to pay the remaining capital.	31.6	31.9
Financial guarantees issued to certain depositors with public sector banks	<p>In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley plc. Maximum potential liabilities under this intervention were estimated to be £5.2 billion as at 31 March 2011 (2010: £6.8 billion), of which £0.5 billion (2010: £0.6 billion) is carried at fair value on the Statement of Financial Position.</p> <p>On 1 January 2010 Government put in place arrangements to guarantee certain retail and wholesale deposits transferred to Northern Rock plc pursuant to the restructuring of the bank. These guarantees were terminated in May 2010 and November 2010 respectively, from which point deposits are no longer guaranteed with the exception of fixed term retail deposits existing at 24 February 2010 and fixed term wholesale deposits existing at 1 January 2010, which are guaranteed to maturity. Maximum potential liabilities under this intervention are estimated to be £0.8 billion.</p> <p>Government also announced replacement guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and wholesale deposits held in accounts with Northern Rock (Asset Management) plc existing immediately after the transfer became effective on 1 January 2010. Maximum potential liabilities under this intervention are estimated to be £14.6 billion as at 31 March 2011, of which a financial guarantee</p>	20.6	29.8

	Remote quantifiable contingent liabilities: Guarantees	2010-11 Potential liabilities	2009-10 Potential liabilities restated*
		£bn	£bn
	liability of £0.1 billion is carried at fair value on the Statement of Financial Position.		
International Financial Institutions	Contingent liabilities in respect of callable capital on investments in International Financial Institutions at 31 March 2011.	9.7	9.2
Coins that are returned from circulation	Contingent liabilities representing Government's potential obligations in respect of coins returned from circulation.	4.0	3.9
Loans to EU Member States and Third Countries	This represents the UK's maximum liability from current outstanding loans to EU Member States and Third Countries. Guaranteed loans to EU Member States include outstanding support under the Balance of Payments Facility, which offers medium-term financial assistance for EU countries outside the Euro area. Guarantees to Third Countries include support to Bosnia-Herzegovina, Georgia and Serbia and Montenegro for macro financial assistance purposes and other specific projects. The loans are guaranteed by the EU Budget and the liability will only crystallise if the loans are defaulted on.	4.0	2.8

	Remote quantifiable contingent liabilities: Indemnities and letters of comfort	2010-11 Potential liabilities	2009-10 Potential liabilities restated
		£bn	£bn
Asset Protection Scheme	On 22 December 2009, the Royal Bank of Scotland (RBS) acceded to the Asset Protection Scheme, insuring an asset pool of £282 billion, with a the first £60 billion of losses within the pool to be borne by RBS and 90 per cent of losses thereafter to be met by HM Treasury. The value of assets covered by the pool as at 31 March 2011 was £181.2 billion. Maximum exposure to Government is estimated at £110 billion, of which a derivative liability of £0.1 billion is carried at fair value on the Statement of Financial Position.	110.0	153.8
Network Rail	Indemnity: The Government has provided a financial indemnity in support of Network Rail's Debt Issuance Programme, to decrease Network Rail's cost of borrowing and increase the amount invested in the rail infrastructure.	25.1	23.8
	Letter of comfort: The Government has issued a standby credit facility for Network Rail, with a term of 50 years, to	4.0	4.0

	Remote quantifiable contingent liabilities: Indemnities and letters of comfort	2010-11 Potential liabilities £bn	2009-10 Potential liabilities restated £bn
	act as a long-term contingency buffer. This has not been used to date. The measures of financial support of Network Rail's borrowing are recognised as financial guarantees within the financial liabilities elements of Note 35 (financial instruments), with a market value of £3.2 billion, payable by Network Rail over the life of the debt issuance programme.		
Government Indemnity Scheme	The Government Indemnity Scheme indemnifies private lenders to enable museums, galleries and other eligible institutions to borrow objects and artworks when mounting exhibitions or taking long-term loans for either study or display. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability.	5.2	6.6

*2009-10 is restated to remove, on consolidation of both HM Treasury and the Bank of England in WGA, an indemnity HM Treasury has provided to the Bank of England for potential losses it may incur through the operation of the Special Liquidity Scheme.

33.2 Remote non-quantifiable contingent liabilities reported to Parliament

Government departments also disclose contingent liabilities reported to Parliament which are deemed to be non-quantifiable. Details of the most significant non-quantifiable guarantees, indemnities and letters of comfort for which the risk of crystallisation is remote, and which have been reported to Parliament, are provided below. Details of other remote contingent liabilities are available in the accounts of individual government departments.

Strategic defence and security review (SDSR)

Contracts affected by SDSR decisions are being renegotiated. Where settlements have already been reached with industry, the financial impact has been included in these accounts. The Ministry of Defence will have to assess and potentially renegotiate up to 500 contracts, and cannot estimate the potential scale of future cancellation and restructuring claims.

Olympic and Paralympic games

Government has given guarantees to the International Olympic Committee that it will act as the ultimate financial guarantor should there be a shortfall between Olympic costs and revenues. These will include any shortfall in the budget of London Organising Committee of the Olympic and Paralympic Games.

Nationalised industries

There is a possibility that other liabilities exist in relation to nationalised, and former nationalised, industries that, if they crystallised, may fall to the Department of Business, Innovation and Skills.

Regional development banks and funds

The Department for International Development is responsible for the maintenance of the value of subscriptions paid to the capital stock of regional development banks and funds.

National Health Service

The Department of Health reported to Parliament that it has entered into a number of unquantifiable or unlimited contingent liabilities with various health service entities and private sector private companies. There were 31 indemnities. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Nuclear matter

Indemnities have been given to UK Atomic Energy Authority (UKAEA) by the Department of Business, Innovation and Skills to cover certain indemnities given by UKAEA to carriers and British Nuclear Fuels plc against certain claims for damage caused by nuclear matter in the course of carriage.

Crown guarantee to protect BT's pension liabilities

To protect employee pensions when BT privatised in 1984, the Government guaranteed to stand behind BT's pension obligations following the unlikely event of BT becoming insolvent. The BT Pension Scheme Trustees brought a case to the High Court to clarify the terms and scope of the Crown Guarantee provided under section 68 of the Telecommunications Act 1984 (as amended by the Communications Act 2003). In October 2010 the High Court ruled that the Government could be liable for liabilities that accrued after BT was privatised, including members who joined the BT Pension Scheme after privatisation, in the unlikely event of BT becoming insolvent.

Note 34. Related party transactions

WGA comprises a consolidation of those entities that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. No one entity appears to have the ability to control all the entities that are consolidated, and as a consequence, for the purposes of WGA, there is no parent company disclosed in this account.

Related parties, for WGA purposes, are those public sector entities, as detailed in Annex 2, that have not been consolidated into 2010-11 WGA, as set out in the FReM. As described in Annex 5 additional entities will be consolidated in WGA in future years.

Entities within the WGA boundary have varying levels of activities with these related parties; material transactions are described below.

The most significant WGA related parties are the public sector banks, Royal Bank of Scotland (RBS), Lloyds Banking Group (Lloyds) and Northern Rock. The Government acquired substantial shareholding in these entities following the financial crisis in 2008. As at 31 March 2011, the Government held 41.3 per cent in Lloyds, had economic ownership of RBS of 83.2 per cent, and held the entire share capital of Northern Rock plc and Northern Rock (Asset Management) plc. In the course of normal business, WGA entities entered into arms-length banking transactions with these institutions such as loans and deposits. The volume and diversity of these transactions make disclosure of them all impractical. These transactions included the reimbursement of related expenses, the payment of management fees, interest receipts and dividends, as well as assets in form loans made, cash received from deposits and a corresponding liability. In addition, HM Treasury was involved in a number of transactions with the

public sector banks, such as the Asset Protection Scheme and Credit Guarantee Schemes, which are described in Note 33. As explained in Note 38, these schemes have now closed. Further details are available in the 2010-11 accounts of HM Treasury at www.hm-treasury.gov.uk.

Due to the nature of HM Revenue and Customs' business, it had a large number of transactions relating to taxation income with other public sector entities not within the WGA boundary.

Local government entities had transactions with municipal ports, airports and parish councils, primarily through the provision of funding. These amounts are reflected in the individual accounts of local government entities. They also had transactions with local government pension schemes and in some instances record the scheme's assets and liabilities in their accounts. Further details are available in the 2010-11 accounts of the individual entities.

The Department for Business, Innovation and Skills, through the Skills Funding Agency, and local authorities, provided funding to further education colleges in England and Wales for research and provision of further education courses. Through the Higher Education Funding Council, it provides funding for research and higher education courses. In Scotland and Northern Ireland, the Scottish Funding Council and the Department for Employment and Learning provided funding to further education colleges.

The Department for Transport had transactions with CTRL Section 1 Finance plc, HS2 Ltd, Directly Operated Railways Limited, and East Coast Mainline Limited, primarily to support the provision of railway services in the UK. This support included grants and capital funding provided by the Department. Further details are available in the Department's 2010-11 accounts.

Note 35. Financial instruments

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Details of the significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial instrument are disclosed in Note 1.20 to the financial statements.

The following tables and narrative provide information on the financial instruments balances included in the Government's accounts and analyse the extent of risks faced by the Government and how these risks have been managed.

35.1 Carrying value of financial instruments

Financial assets, as at 31 March 2011, are categorised at their carrying values as follows:

	Note	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Held for trading at fair value £bn	2010-11 Total £bn
Cash and cash equivalents	21	22.5	-	-	-	-	22.5
Trade and other receivables	17	-	145.8	-	-	-	145.8
Loans and deposits with banks	22	-	109.9	0.3	-	-	110.2
Equity investments in banks	18	-	-	-	56.5	-	56.5
Other equity investments	22	-	-	0.1	14.3	2.2	16.6
Debt securities	22	-	-	-	-	29.2	29.2
Student loans	22	-	29.6	-	-	-	29.6
IMF Quota Subscription	22	-	10.6	-	-	-	10.6
IMF Special Drawing Rights	22	-	-	-	-	9.2	9.2
Other	22	-	-	0.5	12.0	5.4	17.9
Total financial assets		22.5	295.9	0.9	82.8	46.0	448.1

Financial assets, as at 31 March 2010, are categorised at their carrying values as follows:

	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Held for trading at fair value £bn	2009-10 £bn	2009-10 restated £bn
Cash and cash equivalents	8.1	-	-	-	-	8.1	19.7
Trade and other receivables	-	165.7	-	-	-	165.7	139.4
Student loans ¹	-	-	-	-	-	-	27.6
Loans and deposits with banks	-	109.2	12.0	-	4.0	125.2	144.9
Equity investments in banks	-	-	-	65.3	-	65.3	61.1
Other equity investments	-	-	0.8	13.9	1.0	15.7	15.0
Debt securities	-	-	-	-	23.8	23.8	23.9
IMF Quota Subscription	-	10.8	-	-	-	10.8	10.8
IMF Special Drawing Rights	-	-	-	-	9.2	9.2	9.2
Other	-	0.2	-	1.4	3.5	5.1	15.8
Total financial assets	8.1	285.9	12.8	80.6	41.5	428.9	467.4

1. Student loans were included in Trade and other receivables in 2009-10

Financial liabilities, as at 31 March 2011, are categorised at their carrying values as follows:

	Note	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2010-11 Total £bn
Government financing and borrowing	24	908.2	-	-	908.2
Trade and other payables	23	181.9	-	-	181.9
Deposits by banks	26	184.6	-	4.7	189.3
Banknotes in circulation	26	52.2	-	-	52.2
IMF SDR allocation	26	-	-	10.0	10.0
Financial guarantees	26	5.0	-	0.2	5.2
Other	26	0.2	6.0	0.5	6.7
Total financial liabilities		1,332.1	6.0	15.4	1,353.5

Financial liabilities, as at 31 March 2010, are categorised at their carrying values as follows:

	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2009-10 £bn	2009-10 restated £bn
Government financing and borrowing	965.5	-	-	965.6	781.8
Trade and other payables	176.2	-	-	176.2	177.1
Deposits by banks	15.2	-	2.9	18.1	206.3
Banknotes in circulation	-	-	-	-	50.2
IMF SDR allocation	-	-	10.1	10.1	10.1
Financial guarantees	6.0	-	-	6.0	6.1
Other	2.9	1.6	4.9	9.4	8.9
Total financial liabilities	1,165.9	1.6	17.9	1,185.4	1,240.5

35.2 Fair value of financial instruments

Financial assets are categorised at their carrying and fair values as follows:

	Carrying value 2010-11 £bn	Carrying value 2009-10 £bn	Fair value 2010-11 £bn	Fair value 2009-10 £bn
Cash and cash equivalents	22.5	8.1	22.5	8.1
Loans and receivables at amortised cost	295.9	285.9	295.9	285.9
Held to maturity investments at amortised cost	0.9	12.8	0.9	12.8
Available for sale financial assets	82.8	80.6	82.8	80.6
Financial assets held for trading	46.0	41.5	46.0	41.5
Total		428.9		428.9
Total financial assets (restated)	448.1	467.4	448.1	467.4

Financial liabilities are categorised at their carrying and fair values as follows:

	Carrying value 2010-11 £bn	Carrying value 2009-10 £bn	Fair value 2010-11 £bn	Fair value 2009-10 £bn
Financial liabilities at amortised cost	1,332.1	1,165.9	1,374.0	1,208.9
Financial liabilities at fair value	6.0	1.6	6.0	1.6
Financial liabilities held for trading	15.4	17.9	15.4	17.9
Total		1,185.4		1,228.3
Total financial liabilities (restated)	1,353.5	1,240.5	1,395.4	1,283.4

Financial instruments measured at fair value use the valuation techniques described in Note 1.20. The remaining financial instruments are carried at cost or amortised cost which approximates to fair value, except in the case of gilt-edged securities which are carried at amortised cost at £745.7 billion and have a fair value of £787.6 billion.

Accounting standard IFRS 7, as applied by the FRM, defines three classifications of fair value measurement, using a fair value hierarchy. The hierarchy reflects the significance of the inputs used in making fair value measurement of financial instruments:

- Level 1 – valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes equity investments in UK financial institutions.
- Level 2 – valued using inputs other than quoted prices used for level 1 valuation, but which are observable, either directly (as prices) or indirectly (derived from prices). These assets include B shares in RBS of £20.8 billion.
- Level 3 – valued using techniques that are not based on observable market data inputs.

The valuation hierarchy of financial instruments that were carried at fair value for 2010-11 was:

	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn
Financial assets at fair value				
Equity investments	36.5	32.0	4.5	73.0
Debt securities	29.2	-	-	29.2
IMF special drawing rights	9.2	-	-	9.2
Other	6.4	11.0	-	17.4
Financial liabilities at fair value				
Deposits by banks	-	(4.7)	-	(4.7)
IMF SDR allocation	(10.0)	-	-	(10.0)
Financial guarantees	-	(0.2)	-	(0.2)
Other	(6.5)	-	-	(6.5)

35.3 Financial guarantees

Details of the Government's significant financial guarantees are disclosed in Note 26. The accounting treatment of financial guarantees is provided in Note 1.20.6.

35.4 Hedging

The UK's official reserves of gold and currencies (including IMF Special Drawing Rights) comprise £49.0 billion (2009-10: £43.4 billion) held by the Exchange Equalisation Account (EEA) and £4.4 billion (2009-

10: £2.3 billion) held by the National Loans Fund (NLF), with the Bank of England acting as the Treasury's agent in the day-to-day management of EEA. Of these, £27.7 billion (2009-10: £23.9 billion) are hedged for currency and interest rate risk. The hedged reserves comprise portfolios of eligible dollar, euro and yen denominated assets and holdings of Special Drawing Rights. Assets in the hedged reserves are hedged for currency risk either by being denominated in the same currency as the liabilities which finance them or by using currency swaps. The hedged reserves are also hedged against interest rate risk, through the use of swaps. The increase in official reserves was primarily caused by the purchase of foreign debt securities.

Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the Government. Financing of the hedged reserves in 2010-11 included sterling swapped into foreign currencies of £14.5 billion (2009-10: £8.7 billion) and the SDR allocation of £10.0 billion (2009-10: £10.1 billion). There were no outstanding foreign currency securities at the end of the year (2009-10: nil) and no new foreign currency securities were issued during the year.

The EEA provides foreign currency services to various government departments and agencies including the Ministry of Defence, through sales of foreign currency to departments with foreign currency obligations and purchases of foreign currency from departments with foreign currency receipts, in aggregate totalling £11.6 billion (2009-10: £14.3 billion). These purchases and sales, both spot and forward, are hedged through offsetting trades with the market.

35.5 Financial risk management

The Government's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including interest rate risk, foreign exchange risk, and price risk). Individual entities are responsible for ensuring that appropriate risk management policies are in place.

35.5.1 Risk management policies and financial risk factors

Traditional risk management, in the private sector, aims to maximise investor return while maintaining risk at an acceptable level. Government risks are normally related to financing arrangements to provide funds for public services and infrastructure. Each year, the Government will assess the costs and risks associated with different possible patterns of debt issuance taking into account the most up-to-date evidence and information about market conditions and demand for debt instruments.

The Government has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. In return for taking on the financial risk, fees are charged to the institutions participating in the interventions. Through its risk management, the Government seeks to minimise overall fiscal risk to the public sector while maximising taxpayer value.

The Government's preferences in relation to the different types of risk taking inherent in cash management are defined by a set of explicit limits covering four types of risk (credit risk, liquidity risk, interest rate risk, and foreign exchange risk) which, taken together, represent the Government's overall risk appetite. Within the Government's risk boundary, public bodies have some discretion to take the actions judged to best achieve the cost minimisation objective.

Much of the Government's risks arising from financial risk are managed through HM Treasury and the central funds, including the National Loans Fund (NLF), Debt Management Office (DMO), Exchange Equalisation Account (EEA), and National Savings and Investments (NS&I). The NLF is central government's principal borrowing and lending account. The DMO meets the financing needs of the NLF through its debt and cash management operations. The NS&I finances a part of the Government's

borrowing by selling investment products to retail savers and investors. The EEA and the NLF hold the UK's official reserves of gold and currencies, which are managed on a day to day basis by the Bank of England. The structural relationship between HM Treasury, DMO, NLF, EEA and NS&I is designed to minimise the Government's financial risk.

Cash requirements of central government departments are met through the Estimates process, and therefore financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The Government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. HM Treasury and the DMO work together to achieve this, with HM Treasury's role to make arrangements for a forecast of the daily net flows into or out of the NLF; and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time. The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by Ministers.

Local authorities adopt independent liquidity and interest rate risk management, but these are managed within statutory constraints. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. Medium Term Plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day to day cash flow need and can access longer term funds from the Public Works Loan Board (PWLb) which acts as a lender of last resort to ensure their financing needs are met.

The Government's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Government's financial performance and play an enhanced role in wider financial stability. Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed, identifying and evaluating financial risks.

35.5.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the Government by failing to discharge an obligation. The Government is exposed to credit risk through a number of its financial assets.

The Government's material credit risk is centred in the central funds, particularly the NLF, DMO, EEA, HM Treasury, the Bank of England, and the Department for Business, Innovation and Skills (BIS). The main credit risks arise from the loans and guarantees provided by the Treasury to the financial institutions, the purchases of assets from the financial institutions, including reverse sale and repurchase agreements ('reverse repos') entered into by DMO and the Bank of England, and student loans provided by BIS.

The Government's material exposures to credit risk are analysed below:

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2010-11 Total £bn
Cash and cash equivalents	2.1	-	-	-	-	2.1
Loans and receivables	19.1	4.5	45.8	2.0	43.6	115.0
Available for sale financial assets	-	-	-	-	2.0	2.0
Financial assets held for trading	28.4	7.5	1.3	0.9	9.2	47.3
Total material exposure	49.6	12.0	47.1	2.9	54.8	166.4

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2009-10 restated Total £bn
Cash and cash equivalents	1.7	-	-	-	-	1.7
Loans and receivables	19.5	5.4	77.2	2.2	38.9	143.2
Available for sale financial assets	-	-	-	-	1.8	1.8
Financial assets held for trading	22.2	7.2	1.4	1.2	9.7	41.7
Total material exposure	43.4	12.6	78.6	3.4	50.4	188.4

The tables above do not include a credit analysis of financial assets held by the Bank of England of £33.7 billion (2009-10: £36.0 billion). As explained in Note 2 to the Bank's accounts, where the Bank considers certain disclosures inappropriate to its central banking functions, it discloses less detail of certain elements, such as information on credit risk, than would be required under either adopted IFRS or the Companies Act.

The reduction in financial assets rated at 'A or equivalent' is due to fewer reverse repos £16.8 billion (2009-10: £44.1 billion) held to manage the Government's cash requirements. Financial assets that are 'not rated' include student loans and the Government's holdings and quota subscription of IMF Special Drawing Rights (£19.8 billion (2009-10: £20.0 billion)).

The Government's material exposures to credit risk are analysed below, by geographic area:

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2010-11 Total £bn
Cash and cash equivalents	1.8	-	0.1	0.2	-	2.1
Loans and receivables	95.7	5.9	0.7	1.0	11.7	115.0
Available for sale financial assets	2.0	-	-	-	-	2.0
Financial assets held for trading	2.9	18.5	13.4	3.3	9.2	47.3
Total material exposure	102.4	24.4	14.2	4.5	20.9	166.4

	UK	Europe	North America	Asia	Other	2009-10 restated Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cash and cash equivalents	1.4	-	0.2	0.1	-	1.7
Loans and receivables	124.0	6.8	0.2	0.1	12.1	143.2
Available for sale financial assets	1.8	-	-	-	-	1.8
Financial assets held for trading	2.7	14.5	11.4	3.7	9.4	41.7
Total material exposure	129.9	21.3	11.8	3.9	21.5	188.4

Management of credit risk

The Government has adopted a policy of dealing only with highly creditworthy counterparties and issuers, with two exceptions for student loans and the financial interventions. The Government's approach to student loans is described separately below. The Government's financial interventions involved transactions with financial institutions such as the Royal Bank of Scotland which was rated 'not strong', on the basis that the costs of inaction would have been far greater for the economy as a whole. Otherwise, the following comments describe the Government's general approach to credit risk management.

The creditworthiness of potential counterparties and security issuers is analysed using the information provided by external credit assessment institutions, such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these and other information sources is monitored continuously for subsequent changes. The Government generally transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement. Each counterparty and issuer must meet this requirement for each external credit rating available at the time the transaction is entered into. The Government regularly monitors its exposure to credit risk. Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value; in measuring credit exposure, different risk weightings are applied to different transaction types. Limits are applied to total unsecured lending and on holdings of debt securities issued by financial institutions and corporate entities, and on the maximum maturity of loans made and securities held.

Exposure to credit risk is managed through collateral arrangements in some areas of government, in particular the DMO, EEA and the Bank of England. These entities take collateral in the form of high quality securities against funds advanced under reverse repo arrangements, and take US Dollar denominated cash or securities as collateral for derivative transactions (including cross currency swaps and forward foreign exchange transactions), which also mitigate against market and interest rate risk.

Student loans

The Department for Business, Innovation and Skills (BIS) has a statutory obligation to issue student loans and seek repayments in line with legislation. It is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. BIS is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by HM Revenue & Customs (HMRC) as part of the tax collection process.

BIS estimates the value of future write-offs when loans are issued using the Student Loan Repayment model, to reflect the intrinsic cost of issuing loans. The department's current estimate as at 31 March 2011 is that £3.1 billion (2009-10: £2.3 billion) (around 9 per cent) of the total face value of the loans issued will not be recovered and this amount is deducted from the face value of the loans to arrive at the carrying amount. However, not all of this is "credit risk" in the normal sense, as the estimates

include factoring in the amounts that the department will write off because it is current policy to write off debts due to death, disability, or age of the student or loan.

BIS works together with the Student Loan Company (SLC) and HMRC, given their role of collecting the loan repayments, to manage the collection of student loan repayments and manage the associated credit risks. There is a Memorandum of Understanding in place between the department and the devolved administrations, who jointly own the loan book, the SLC who administers the loan book, and HMRC. This sets out the responsibilities of the all parties and contains performance targets and indicators, which are revised annually. The Accounting Officers of HMRC and the SLC report quarterly to the department's Accounting Officer on progress towards the agreed targets and performance indicators.

35.5.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated with financial liabilities as they fall due. Liquidity risk also refers to the loss due to the lack of liquidity preventing quick or cost-effective liquidation of products, positions or portfolios.

Key financial liabilities where the Government is exposed to liquidity risk include gilt-edged securities, Treasury bills and National Savings & Investment products, totalling £908.2 billion (2009-10: £781.8 billion), and other financial liabilities such as deposits by banks and other financial institutions held by the Bank of England of £154.3 billion (2009-10: £169.9 billion).

Central government departments' net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament. Accordingly, future financing of liabilities held by departments would be met by future grants of Supply, voted annually by Parliament. Departments are not, therefore, exposed to significant liquidity risks in the same way that a private sector organisation would be. Therefore there is minimal liquidity risk associated with the Government's trade and other payables.

The following table shows the maturity of the Government's contractual undiscounted cash flows of its financial liabilities with liquidity risk.

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2010-11 Total £bn
Non-derivative liabilities	452.7	63.1	182.5	201.7	456.7	12.8	1,369.5
Derivative liabilities	3.9	0.4	0.4	-	-	-	4.7
Total in 2010-11	456.6	63.5	182.9	201.7	456.7	12.8	1,374.2

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2009-10 restated Total £bn
Non-derivative liabilities	381.1	60.5	140.5	173.5	356.5	13.0	1,125.1
Derivative liabilities	2.0	1.1	1.4	-	-	-	4.5
Total in 2009-10	383.1	61.6	141.9	173.5	356.5	13.0	1,129.6

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Government can be required to pay. The majority of non-derivative financial liabilities with a maturity of less than 12 months are gilts, Treasury bills, National Savings & Investment products, and deposits from banks and other financial institutions held at the Bank of England. The majority of non-derivative financial liabilities with a maturity of more than 10 years are gilts. The increase in risk since 2009-10 is as a result of issuing more gilts to non-government bodies during 2010-11.

Management of liquidity risk

The Government manages its exposure to liquidity risk in various ways, primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding sufficient financial assets for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury bills, National Saving & Investment products, and gilts to raise funds.

The Debt Management Office (DMO) manages liquidity risk on behalf of central government. DMO maintains a minimum prudent level of highly liquid quality assets at all times to ensure that commitments, as forecast by HM Treasury, are met. The risk is minimised through the diversification of its portfolio. At individual entity level liquidity risk is managed by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and reassessing the net cash requirement on a regular basis.

35.5.4 Market risk

Market risk is the risk that fair values and future cash flows will fluctuate due to changes in market prices. Market risk generally comprises: interest rate risk, foreign exchange risk, and price risk.

35.5.5 Interest rate risk

There are two types of interest rate risk: cash flow and fair value. Cash flow and fair value interest rate risk is the risk that the future cash flows of a financial instrument or its value will fluctuate because of changes in market interest rates. Cash flow interest rate risk arises on variable rate loans. Fair value interest rate risk arises on fixed interest rate loans.

The Government's interest rate risk is concentrated mainly in the National Loans Fund (NLF), the Debt Management Office (DMO), Exchange Equalisation Account (EEA), National Savings & Investments (NS&I), the Bank of England, HM Treasury and the Department for Business, Innovation and Skills (BIS). Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk. The assets and liabilities which are exposed to significant cash flow interest rate risk are those assets and liabilities applying a variable interest rate. The main examples are index-linked gilts, NS&I products and student loans which are linked to RPI, and bank and other borrowings and deposits by banks which are affected by changes in LIBOR and the Bank of England base rate. The assets and liabilities which are exposed to significant fair value interest rate risk are those assets and liabilities applying a fixed interest rate, such as debt securities held at fair value. Cash and cash equivalent balances earn negligible interest and so are not exposed to significant interest rate risk.

Where the Government is exposed to material interest rate risk, the interest rate profile is as follows:

	2010-11			
	Total	Non- interest bearing	Floating rate	Fixed rate
	£bn	£bn	£bn	£bn
Financial assets - in sterling	123.4	5.3	82.0	36.1
Financial assets - in other currencies	57.9	12.4	9.5	36.0
Financial liabilities - in sterling	(983.7)	(66.9)	(308.8)	(608.0)
Financial liabilities - in other currencies	(15.4)	(0.1)	(10.0)	(5.3)
Net financial assets/(liabilities)	(817.8)	(49.3)	(227.3)	(541.2)

	2009-10			
	Total (restated)	Non- interest bearing	Floating rate	Fixed rate
	£bn	£bn	£bn	£bn
Financial assets - in sterling	107.9	0.8	58.4	48.7
Financial assets - in other currencies	57.0	11.0	14.0	32.0
Financial liabilities - in sterling	(895.3)	(69.0)	(297.8)	(528.5)
Financial liabilities - in other currencies	(15.5)	-	(14.9)	(0.6)
Net financial assets/(liabilities)	(745.9)	(57.2)	(240.3)	(448.4)

Management of interest rate risk

The entities exposed to interest rate risk measure and monitor their risk exposure using different sensitivity analysis techniques, including the value at risk method (VaR). The interest rate risk across these entities is sensitive to a number of factors including RPI, LIBOR and the Bank of England base rate. Therefore it is not possible to summarise this meaningfully in one sensitivity analysis. Instead the significant sensitivities are described below. Further details are available in the underlying accounts.

In relation to index-linked gilts and NS&I products, the NLF has calculated that an increase in RPI by 100 base points would result in an increase in expenditure of £2.4 billion (2009-10: £2.0 billion) on its total balance, including those held by other WGA entities. The DMO enters into cash and securities contracts at fixed interest or discount rates and uses present value of a basis point as the sensitivity measure to measure sensitivity to a 0.01 per cent parallel shift in interest rates when all other risk factors are held constant. The EEA hedges interest rate risk through interest rate swaps. Typically, it pays fixed rate interest on currency it acquires and generates fixed interest income in the same currency through purchasing an asset such as a bond. By swapping the fixed interest receipts for floating interest receipts through an interest rate swap, the EEA acquires an income stream that matches its interest payment liability and thus minimises its interest rate risk exposure.

In relation to student loans, BIS relies on long term assumptions after 2016 to determine the impact of interest rate changes both on the borrower's ability to pay, and the Department's forecasts of future payment streams. The impact of the risk on student loans is quantified in the impairment provision which models the impact of interest rate rises on expected future cash flows. Income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1 per cent above the Bank of England base rate nor can it be less than 0 per cent. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. This can lead to a risk in forecasting the amount of interest payable.

Furthermore, if the UK continues to experience interest rates that are lower than RPI and, therefore, the interest rate cap reoccurs with frequency, the student loan book may be over-valued, as the modelling assumes, in the long term, that interest is added in line with RPI. The risk of impairment (£1.0 billion) in the short-term (up to 2014) has been provided for.

35.5.6 Foreign-exchange rate risk

The Government undertakes transactions denominated in foreign currencies and it holds international monetary reserves including foreign currency assets and IMF Special Drawing Rights. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising derivatives, such as forward foreign exchange contracts.

Foreign-exchange rate risks are concentrated in the central funds such as the Exchange Equalisation Account (EEA), the National Loans Fund (NLF) and the Consolidated Fund. A lower level of exposure exists with entities such as the Ministry of Defence and the Department for International Development. For other central government departments, local authorities, entities within the National Health Service, and public corporations, exposure to foreign currency risk during the year was insignificant from a WGA perspective. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure (less than 1 per cent).

Presented below is the sterling equivalent of the Government's foreign currency assets and liabilities, analysed by their underlying foreign currencies, which give rise to a material level of foreign-exchange rate risk.

The Government's material exposures to foreign-exchange risk are analysed below:

	Euro	USD	YEN	Other	2010-11 Total
Foreign currency denominated financial assets/liabilities	£bn	£bn	£bn	£bn	£bn
Financial assets					
Cash and cash equivalents	0.2	0.5	0.2	0.2	1.1
Loans and receivables	1.0	0.6	0.1	11.8	13.5
Available for sale financial assets	6.7	2.0	-	0.5	9.2
Financial assets held for trading	5.4	7.2	2.3	0.1	15.0
Total	13.3	10.3	2.6	12.6	38.8
Financial liabilities					
Financial liabilities at amortised cost	1.0	0.9	0.1	7.7	9.7
Financial liabilities at fair value	-	0.1	-	-	0.1
Financial liabilities held for trading	-	-	-	0.8	0.8
Total	1.0	1.0	0.1	8.5	10.6

	Euro	USD	YEN	Other	2009-10 restated Total
Foreign currency denominated financial assets/liabilities	£bn	£bn	£bn	£bn	£bn
Financial assets					
Cash and cash equivalents	0.2	0.9	0.1	0.2	1.4
Loans and receivables	1.1	1.1	0.1	11.1	13.4
Available for sale financial assets	6.4	2.1	-	0.4	8.9
Financial assets held for trading	5.5	6.2	2.6	0.6	14.9
Total	13.2	10.3	2.8	12.3	38.6
Financial liabilities					
Financial liabilities at amortised cost	0.6	1.2	0.1	8.7	10.6
Financial liabilities at fair value	0.1	0.3	0.1	-	0.5
Financial liabilities held for trading	-	-	-	0.9	0.9
Total	0.7	1.5	0.2	9.6	12.0

Where the Government is exposed to material foreign-exchange rate risk, its sensitivity to movements in GBP exchange rates is as follows:

Change in GBP exchange rates	2010-11 Impact on Revenue & Expenditure £bn	2009-10 Impact on Revenue & Expenditure £bn	2010-11 Impact on Net liabilities £bn	2009-10 Impact on Net liabilities £bn
Strengthen by 10%	2.3	(0.3)	(1.9)	(0.4)
Weaken by 10%	(2.7)	0.3	2.2	0.8

The UK's official reserves of foreign currency and gold are held by EEA and National Loans Fund (NLF) and can be split into reserves that are hedged for currency and interest rate risk and the remaining reserves which are unhedged.

The hedged reserves comprise portfolios of eligible dollar, euro and yen denominated assets and holdings of SDRs. The unhedged reserves that are exposed to foreign-exchange rate risk comprise dollar and euro denominated bonds, IMF lending and yen exposure normally obtained through forward yen purchases. The unhedged reserves are in the main financed out of sterling through accumulated retained earnings and sterling financing provided by the NLF.

Assets in the hedged reserves are managed on a day-to-day basis by the Bank of England, and are hedged for currency risk to reduce exposure either by being denominated in the same currency as the liabilities which finance them or by using currency swaps. The hedged reserves are also hedged against interest rate risk, through the use of swaps. The hedged reserves are primarily financed by sterling raised from the sale of gilts advanced from the NLF to the EEA. Financing of the hedged reserves in 2010-11 included sterling swapped into foreign currencies of £14.5 billion (2009-10: £8.7 billion) and the SDR allocation of £10.0 billion (2009-10: £10.1 billion).

The NLF is directly exposed to foreign exchange movements through the UK's transactions with the International Monetary Fund (IMF). The UK's quota subscription to the IMF and the bilateral loan to the IMF are both denominated in Special Drawing Rights (SDR) and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

The UK's capital investment in the European Investment Bank (EIB) of £5.8 billion (2009-10: £5.5 billion) is reported on the basis of a certain share of the EIB's net assets in euros. Therefore there is an exposure to foreign exchange rate risk affecting the fair value of the equity investment.

Management of foreign-exchange rate risk

As described above, foreign-exchange rate risks are concentrated mainly in the Exchange Equalisation Account (EEA). EEA uses currency swaps to hedge foreign-exchange rate risk, through an initial exchange of sterling principal for foreign currency at the spot rate, receiving back the same amount of sterling principal at maturity, and regular exchanges of interest payments on the principal amounts. The Government's financing of the hedged foreign currency reserves, by engaging in foreign currency swaps out of sterling, is done in a way that minimises the exposure to fluctuations in the value of currencies.

35.5.7 Price risk

The Government is exposed to equity securities price risk through investments held by HM Treasury and classified on the consolidated Statement of Financial Position as available-for-sale. Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and The Royal Bank of Scotland are listed on the London Stock Exchange. In addition, RBS's B-shares are considered to be equivalent in market value to RBS's ordinary shares. No market exists for the remaining investments, which are primarily other Government entities, some of which are never intended for sale. Such investments are primarily accounted for at historical cost and thus not exposed to price risk.

The analysis below shows the Statement of Revenue and Expenditure impact of a 10 per cent and 25 per cent increase/(decrease) in the market price of investments in Lloyds Banking Group and The Royal Bank of Scotland. These variances were considered reasonably possible at the balance date.

Variance in market price	Impact on Revenue & Expenditure	
	2010-11 £bn	2009-10 £bn
Increase of 10 per cent	0.4	0.5
Increase of 25 per cent	0.4	0.5
(Decrease) of 10 per cent	(7.2)	(5.8)
(Decrease) of 25 per cent	(11.7)	(10.4)

Note 36. Significant financial assets and liabilities that are not consolidated in the account

As at 31 March 2011, the Government held 68.4 per cent of the total ordinary share capital of Royal Bank of Scotland plc (RBS) (with 83.2 per cent economic ownership), 41.3 per cent of the total ordinary share capital of Lloyds Banking Group plc (LBG), and 100 per cent of Northern Rock plc (NR), Northern Rock (Asset Management) plc (NRAM), and Bradford and Bingley plc (B&B). These equity investments are disclosed in Note 18. Their assets and liabilities, which are not consolidated into these accounts, are shown below.

As reported in their published accounts	31 December 2010			31 December 2009 (restated) ¹		
	Total assets £bn	Total liabilities £bn	Net liability £bn	Total assets £bn	Total liabilities £bn	Net liability £bn
NR plc ²	18.6	(17.4)	1.2	1.4	(1.4)	-
NRAM and B&B ³	111.7	(108.2)	3.5	136.8	(134.4)	2.4
RBS and LBG ⁴	2,445.2	(2,321.4)	123.8	2,723.7	(2,585.0)	138.7
Total	2,575.5	(2,447.0)	128.5	2,861.9	(2,720.8)	141.1
WGA total	1,227.7	(2,421.1)	(1,193.4)	1,249.5	(2,477.4)	(1,227.9)

¹ 2009 figures for Northern Rock (Asset Management) plc and Bradford & Bingley were restated reflecting a number of reclassifications to be consistent with their parent company. 2009 figures for RBS were restated for the reclassification of results from discontinued operations.

² Source: accounts of Northern Rock plc for the year ended 31 December 2010

³ Source: accounts of Northern Rock (Asset Management) plc and Bradford & Bingley for the year ended 31 December 2010

⁴ Source: accounts of Royal Bank of Scotland Group plc and Lloyds Banking Group plc for year ended 31 December 2010

NRAM and B&B's assets and liabilities are proposed to be consolidated into WGA from 2013-14, as they are expected to be a permanent part of government until their mortgage books have expired and therefore form a longer-term part of the public sector.

The remaining banks will continue to be held as equity investments. These entities are not consolidated in WGA in 2010-11 and will not be in future years, because their scale would dwarf other aspects of WGA, distorting the accounts, and therefore making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of the remaining banks in the long term and, in due course, they will return to the private sector, for example the sale of NR plc as discussed below. Finally, it would also be extremely costly to carry out the consolidation (mostly because of differing year ends), which would not represent good value for the taxpayer, given the expected temporary nature of their ownership.

NR plc announced on 8 March 2011 that it was exploring options for sale to the private sector. On 15 June 2011, the Chancellor announced the decision to put Northern Rock plc up for sale. On 1 January 2012, the completion of the sale of 100 per cent of the share capital of NR plc to Virgin Money Holdings (UK) Limited (Virgin Money) was confirmed.

In the sections below, the relationship with each bank is described, along with extracts from their accounts showing their gross assets and liabilities, and profit or loss for the year. Further information is also available from the HM Treasury accounts which can be found at www.hm-treasury.gov.uk.

36.1 UKFI

UK Financial Investments Limited (UKFI) is a registered company, wholly owned by the Government. It manages the Government's shares in RBS, LBG, NRAM and B&B. UKFI's objectives are to:

- develop and execute an investment strategy for disposing of the Government's shareholdings in an orderly and active way through share sale, redemption or buyback or other means; and
- manage the Government's shareholdings to protect and create value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

UKFI is funded by fee income from the HM Treasury. Its activities are governed by its Board, which is accountable to the Chancellor of the Exchequer. In accordance with the FReM, the HM Treasury's shares in UKFI are carried at historical cost, which is £1.

UKFI is considered a minor entity for the purposes of WGA and not consolidated into the accounts (see Annex 3). More details on UKFI and its management of the Government's holdings in financial institutions over the last year are available in the UKFI's 2010-11 accounts, which can be viewed on its website www.ukfi.co.uk.

36.2 UKAR

UK Asset Resolution Limited (UKAR) is the holding company established on 1 October 2010 to bring together the Government-owned businesses of NRAM and B&B. UKFI manages HM Treasury's 100% shareholding in UKAR Limited.

There is no requirement to produce consolidated accounts this year because of the short accounting period covered. NRAM and B&B continue to be separate legal entities and publish their own financial statements, extracts of which are included in Notes 36.5 and 36.6 below. More details on UKAR and its activities are available on its website www.ukar.co.uk.

36.3 Royal Bank of Scotland Group plc

The Royal Bank of Scotland Group plc (RBS) is a British banking and insurance holding company. On 8 October 2008, the Government announced a recapitalisation scheme under which capital support would be made available to eligible institutions from public sector resources. As a result of the arrangement, in December 2008, HM Treasury acquired approximately £15 billion of ordinary shares plus £5 billion of preference shares in RBS.

On 19 January 2009 the Government announced its agreement with RBS to convert HM Treasury's £5 billion preference share investment into new ordinary shares.

On 26 November 2009, the Government and RBS signed binding agreements under which on 22 December 2009 the Government injected £25.5 billion of capital in the form of B shares. As a result the Government's economic ownership of RBS rose to 83.2 per cent as at 31 March 2011, including 68.4 per cent ownership of the ordinary share capital of RBS. In addition, the Government has agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's Core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5 per cent (the Contingent Capital Commitment).

In December 2009, RBS acceded to the Asset Protection Scheme (APS), insuring an asset pool of £282 billion. The first £60 billion of losses within this pool is borne by RBS and 90 per cent of losses thereafter are met by HM Treasury. The value of assets covered by the pool as at 31 March 2011 was

£181.2 billion, having reduced due to run-off of the portfolio, disposals, early repayments, and maturing loans. Under the terms of APS, RBS is paying an annual fee in advance of £0.7 billion for the first three years, followed by £0.5 billion a year for the remaining term of its participation in the APS. Exit would need to be approved by the FSA and RBS will pay a minimum exit fee equal to the larger of either £2.5 billion, or 10 per cent of the actual regulatory capital relief received by RBS while it was in the APS, less in either case annual fees already paid. To date, RBS have paid fees of £2.5 billion for inclusion in the APS. During 2010-11, RBS paid £0.7 billion in fees for inclusion in the APS and £0.3 billion in contingent capital fees.

RBS published its 2010 results on 24 February 2011 which showed a loss on continuing operations of £0.4 billion before tax. An extract showing the key figures is provided below. For further details, refer to the accounts of Royal Bank of Scotland Group plc, which are available at: www.rbs.com.

Extracts from Royal Bank of Scotland Group plc's Accounts for the Year Ended 31 December 2010

	2010	2009
	£bn	Restated ¹ £bn
Total income	31.9	33.0
Loss before taxation	(0.4)	(2.6)
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.6)	0.4
Loss from discontinued operations	(0.6)	(0.1)
Loss for the year after tax	(1.6)	(2.3)
Total assets	1,453.6	1,696.5
Total liabilities	(1,376.7)	(1,601.9)
Net assets and shareholder funds	76.9	94.6

1. Restated for the reclassification of results from discontinued operations.

36.4 Lloyds Banking Group plc

On 13 October 2008, under the Government recapitalisation scheme, HM Treasury acquired ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB. It also acquired preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB.

On 19 January 2009, HBOS and Lloyds TSB merged to form the Lloyds Banking Group (LBG) and this resulted in HM Treasury holding 43.4 per cent of the share capital and £4 billion of preference shares in LBG.

On 7 March 2009 the Government announced its agreement with LBG to convert HM Treasury's £4 billion preference share investment into new ordinary shares, and its intention to participate in the APS. In November 2009, LBG announced that it planned to raise sufficient capital through the market to meet the FSA's capital requirements without the need for additional support from the Asset Protection Scheme. A fee of £2.5 billion was subsequently levied on LBG for the implicit protection it received since indicating it would participate.

There have been no financial transactions with LBG during 2010-11.

LBG published its 2010 results on 29 March 2011 which showed a profit before tax of £0.3 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Lloyds Banking Group plc, which are available at: www.lloydsbankinggroup.com.

Extracts from Lloyds Banking Group plc's Accounts for the Year Ended 31 December 2010

	2010	2009
	£bn	£bn
Total income	43.5	45.3
Profit before taxation	0.3	1.0
Tax credit/(charge) on profit of ordinary activities	(0.5)	1.9
Profit/(loss) for the year after tax	(0.2)	2.9
Total assets	991.6	1,027.3
Total liabilities	(944.7)	(983.2)
Net assets and shareholder funds	46.9	44.1

36.5 Northern Rock (Asset Management) plc and Northern Rock plc

On 22 February 2008, by an order made under the Banking (Special Provisions) Act 2008, the shares of Northern Rock plc were transferred into Temporary Public Ownership (TPO). On 23 February 2009, the then Government announced that Northern Rock (NR) would be restructured into two separate entities: Northern Rock plc (NR) and Northern Rock (Asset Management) plc (NRAM). On 1 January 2010 the business of Northern Rock was split between NR and NRAM. All customer deposits and a proportion (around 10 per cent) of the mortgage book were transferred to NR, a new bank offering mortgage and savings products and regulated by the Financial Services Authority (FSA). The remaining mortgages and most wholesale funding remain in NRAM. NRAM does not offer new mortgage products or hold any customer deposits and is committed to a wind down of its business.

The ordinary shares in NRAM and NR are held on the Statement of Financial Position at historical cost, being the price paid, plus capital injections, less impairment. As at 31 March 2011, this was nil and £1.2 billion (2009-10: nil and £1.4 billion) respectively. The Government's interest in both companies is managed by UK Financial Investments (UKFI). On 1 October 2010, NRAM was integrated with Bradford & Bingley plc under a single holding company, UK Asset Resolution. On 1 January 2012, NR was sold by HM Treasury to Virgin Money Holdings (UK) Limited.

The Bank of England provided a loan of £18.8 billion to finance the transfer of NR to Temporary Public Ownership which was novated on 28 August 2008 on the same terms to HM Treasury. A new loan facility structure and agreement was put in place as part of the restructuring of NR in January 2010. The loan remained with NRAM, and increased on 4 January 2010 by £8.5 billion, in order for NRAM to finance the difference between mortgage assets and retail and wholesale deposit liabilities that were transferred to NR. The gross value of the loan as at 31 March 2011 was £21.6 billion. The interest receivable on HM Treasury's loan to NR/NRAM for 2010-11 was £0.2 billion.

On 31 December 2009, HM Treasury provided NR with £1.4 billion of capital support in order for the company to meet the FSA's regulatory capital requirements. HM Treasury also provided a commitment to the FSA that up to £1.6 billion in additional capital support will be provided to NRAM should that be necessary to allow it to continue to meet its regulatory capital requirements. HM Treasury is also providing a working capital facility (WCF) loan to NRAM with a current commitment of up to £2.5 billion to help the company with its wind down. This has not been drawn on to date. No fee is payable on the WCF unless drawn down.

HM Treasury expects the loan facilities to NRAM to be repaid in full over the period of wind down as per the business plan.

On 24 February 2010, following consultation with the FSA, HM Treasury announced that it intended to remove HM Treasury's temporary guarantee arrangements for retail deposits in NR. Consequently, these guarantee arrangements were lifted with effect from close of business on 24 May 2010. However, fixed term retail deposits existing at 24 February 2010 will continue to be covered by the guarantee arrangements until maturity. The guarantee arrangements for wholesale deposits and borrowings of NR terminated on 3 November 2010 following three months notice being given in August 2010. Fixed term wholesale deposits existing at 3 August 2010 will continue to be covered by the guarantee arrangements until maturity. Every eligible retail depositor with NR continues to have the first £85,000 of their deposit guaranteed by the Financial Services Compensation Scheme (FSCS), as is the case for customers of all banks and building societies in the UK authorised by the FSA to conduct the regulated activity of accepting deposits. NR plc and NRAM pay a monthly fee in respect of existing retail and wholesale guarantee arrangements. The fee income totalled £22 million in 2010-11.

On 30 March 2010, the independent valuer appointed under the Northern Rock plc Compensation Scheme Order 2008, Andrew Caldwell, published his assessment of the compensation payable to former shareholders in NR. Mr Caldwell determined that there was no value in the shares (or right to receive shares) immediately before the transfer of Northern Rock into TPO and therefore that no compensation is payable by HM Treasury to former shareholders (and to those whose rights to receive shares were extinguished under the Northern Rock plc Transfer Order 2008). All shareholders were given the opportunity to ask the valuer to reconsider his assessment. On 4 October 2010, after considering the requests for reconsideration, Mr Caldwell issued his Revised Assessment Notice in which he stated that he remains of the conclusion that no compensation is payable by HM Treasury to former shareholders of NR (or other affected parties). A number of former shareholders who disputed the assessment referred the case to the Upper Tribunal where a hearing took place between 31 May and 6 June 2011. On 6 October 2011, the Upper Tribunal announced that it had upheld the valuer's decision. Subsequently, former shareholders applied to the Upper Tribunal for permission to appeal to the Court of Appeal. The Upper Tribunal granted permission to appeal on 28 October 2011. The Court of Appeal hearing has been scheduled for January 2013.

NRAM published its 2010 Results on 31 March 2011 which showed a profit before tax of £0.4 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Northern Rock (Asset Management) plc, which are available at: www.northernrockassetmanagement.co.uk.

Extracts from Northern Rock (Asset Management) plc's Accounts for the Year Ended 31 December 2010

	2010	2009
	£bn	Restated ¹
	£bn	£bn
Total income	1.5	1.1
Profit/(loss) before taxation	0.4	(0.3)
Tax credit/(charge) on profit/(loss) of ordinary activities	-	-
Profit/(loss) for the year after tax	0.4	(0.3)
Total assets	66.3	87.4
Total liabilities	(65.0)	(86.4)
Total equity	1.3	1.0
Total non-shareholders' funds	(0.2)	(1.4)
Total share capital and reserves	1.1	(0.4)

1. Restated for the reclassification of results to be consistent with UKAR.

NR plc published its 2010 Annual Results on 9 March 2011 which showed a loss before tax of £0.2 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Northern Rock plc, which are available at: www.companyinfo.northernrock.co.uk.

Extracts from Northern Rock plc's Accounts for the Year Ended 31 December 2010

	2010 £bn	2009 ¹ £bn
Total income	0.1	-
Loss before taxation	(0.2)	-
Tax credit/(charge) on profit of ordinary activities	-	-
Loss for the year after tax	(0.2)	-
Total assets	18.6	1.4
Total liabilities	(17.4)	(1.4)
Net assets and shareholder funds	1.2	-

1. 3 July to 31 December 2009.

36.6 Bradford & Bingley plc

On 29 September 2008, in exercise of a power under the Banking (Special Provisions) Act 2008, HM Treasury transferred the shares of Bradford & Bingley plc (B&B) into public ownership. Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey). In order to facilitate this transfer, the FSCS and HM Treasury made cash payments to Abbey equal to the value of deposit liabilities. The Bank of England provided the FSCS with a loan in order to enable the FSCS to make this payment; the loan was transferred to HM Treasury in December 2008. Total cash paid to Abbey by the FSCS and HM Treasury for the transferred retail deposit liabilities was £18.4 billion. Of this £18.4 billion, HM Treasury is liable for deposit balances in excess of £35,000, (the FSCS compensation limit at the time) which have been determined to be £2.7 billion. The FSCS is liable for the remaining £15.7 billion.

The ordinary shares in B&B are held on the Statement of Financial Position at historical cost. As at 31 March 2011, this was nil (2009-10: nil). The Government's interest is managed by UK Financial Investments (UKFI). On 1 October 2010, B&B was integrated with NRAM under a single holding company, UK Asset Resolution.

On 24 June 2009, HM Treasury, on the recommendation of an independent panel, appointed Peter Clokey as independent valuer under the terms of the Bradford & Bingley plc Compensation Scheme Order 2008. The independent valuer completed his final assessment on 5 July 2010 and concluded that no compensation is payable by HM Treasury to former B&B's shareholders and bondholders. All affected parties, including shareholders and bondholders, were given the opportunity to submit a request for the valuer to re-determine his decision. Mr Clokey published his Revised Assessment Notice on the 14 March 2011, stating that he remains of the conclusion that no compensation is payable to former shareholders of Bradford & Bingley. Mr Clokey's Revised Assessment Notice included details of how to refer the case to the Upper Tribunal should any person affected by the determination remain dissatisfied.

In September 2008, HM Treasury put in place guarantee arrangements to safeguard certain wholesale borrowings and deposits with B&B. These will remain in place until the wind down of B&B is complete. For further information on these please see the HM Treasury website. On 25 January 2010, the European Commission gave State Aid approval to the restructuring plan for B&B and these guarantee

arrangements. B&B pays a monthly fee to HM Treasury in respect of the wholesale deposit guarantee arrangements and this totalled £33 million in 2010-11.

In September 2008, the Bank of England provided a Working Capital Facility (WCF) loan to B&B. The WCF was refinanced by HM Treasury on 29 December 2008 and stood at £8.6 billion as at 31 March 2011 whilst the commitment remained at £11.5 billion. B&B pay interest and drawdown fees on the WCF. Interest and drawdown fees received during 2010-11 totalled £0.2 billion.

As at 31 March 2011, the FSCS loan was £15.7 billion and the net present value of the HM Treasury statutory debt, after impairments and amortisation, was £2.1 billion. The FSCS pays interest on the loan from HM Treasury relating to B&B deposits. Interest accrued during 2010-11 totalled £0.3 billion, payable on 3 October 2011.

B&B published its 2010 results on 31 March 2011 which showed a profit before tax of £1.1 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Bradford & Bingley plc, which are available at: www.bbg.co.uk.

Extracts from Bradford & Bingley plc's Accounts for the Year Ended 31 December 2010

	2010	2009
	£bn	Restated ¹ £bn
Total income	0.7	0.6
Profit/(loss) before taxation	1.1	(0.2)
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.3)	0.1
Profit/(loss) for the year after tax	0.8	(0.1)
Total assets	45.4	49.4
Total liabilities	(43.2)	(48.0)
Total net assets	2.2	(1.4)

1. Restated for the reclassification of results to be consistent with UKAR.

Note 37. Third party assets

	2010-11	2009-10
	£bn	£bn
Investments	0.4	0.3
Monetary assets	4.3	4.6
Total third party assets	4.7	4.9

The government holds, as custodian or trustee, certain assets belonging to third parties, for example funds in court or money held on behalf of others. These are referred to as third party assets. These assets are not public assets and are not recognised in the Statement of Financial Position since the government does not have a direct beneficial interest in them. Central government entities are required to disclose them in accordance with the 2010-11 Government Financial Reporting Manual.

The Court Funds Office, part of the Ministry of Justice, manages money held in court on behalf of clients who may be involved in a civil legal action, individuals who, under the Court of Protection, are not able to manage their property and affairs; and children under the age of 18. Assets held at the reporting

period end date comprised cash and securities. The market values of these assets as at 28 February 2011 (financial reporting period end date for the Court Funds Office) were:

- £3.4 billion (2009-10: £4.1 billion) of cash held and invested on behalf of the Accountant General through the Commissioners for the Reduction of National Debt's Court Funds Investment Account; and
- £0.2 billion (2009-10: £0.2 billion) of securities, a combination of units and stock holdings held in the name of the Accountant General, including the Index Tracker Fund.

Further information regarding funds in court is available in the 2010-11 Funds in Court Part A Accounts. Other significant third party assets are held by the Northern Ireland Court of Justice and the Ministry of Defence.

Note 38. Events after the reporting period

In accordance with IAS 10 '*Events after the reporting period*', reporting entities are required to disclose any event between the date at the end of the reporting period and the date when the financial statements are authorised for issue that may affect the financial statements. The standard classifies these events as either 'adjusting' or 'non-adjusting'. Adjusting events refer to conditions that existed during the reporting period, and if the conditions change the statements should be adjusted accordingly. Non-adjusting events are significant conditions that arise after the reporting period, but do not require the statements to be adjusted. The FReM modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the consolidated entity's reporting date and the WGA reporting date do not apply, and therefore all events are non-adjusting.

The following events that have occurred after the reporting period have been identified as significant to WGA.

Sale of equity investments in the public sector banks

On 17 November 2011 the Chancellor announced the sale of Northern Rock plc to Virgin Money plc. The Treasury received proceeds with an estimated value of £886 million. In addition to the proceeds, the sale agreement includes a clause through which a successful sale or listing of Virgin Money before the end of 2016 would result in payments to the Treasury of up to £80 million.

In December 2010 the Government agreed to provide a £3.2 billion bilateral loan to Ireland as part of an international package of financial assistance. Three loan disbursements were made during 2011-12 totalling £1.2 billion.

Royal Mail Pension transfer to prepare for the sale of the Royal Mail

The Postal Services Act 2011 put in place a legislative framework aimed at safeguarding the future of Royal Mail and the universal postal service and is the first step on the path towards a sale of shares in the Royal Mail. As part of this preparation for a possible future sale of shares, the Act enabled the relief of the Royal Mail Pension Plan's historic pension deficit, with members' historic rights being protected by the Government through the Royal Mail Statutory Pension Scheme. The Royal Mail Statutory Pension Scheme has assumed responsibility for an estimated £32 billion of future pension payments from 1 April 2012.

Certain Royal Mail Pension Plan assets will transfer from the Royal Mail Pension Plan to a newly formed government body from 1 April 2012. Assets will transfer in phases as actuarial calculations are finalised. It is expected that these assets will add around £28 billion to the value of the government's balance sheet which will be realised in a measured fashion over time.

Financial stability interventions

During 2011-12, HM Treasury's exposure to remote contingent liabilities due to the financial stability interventions has significantly decreased. Whilst not all contingent liabilities are quantifiable, the most significant changes since the reporting date are reductions in exposure for the Asset Protection Scheme (APS), Credit Guarantee Scheme (CGS), and for financial guarantees to certain depositors with Northern Rock plc, Northern Rock Asset Management and Bradford and Bingley. There has also been a reduction in the probability of future payouts across these schemes. These remote contingent liabilities are shown in Note 32 to the Account.

The APS remote contingent liability reduced from £110 billion as at 31 March 2011 to nil after the Royal Bank of Scotland exited from the scheme in October 2012. The CGS remote contingent liability reduced from £115 billion as at 31 March 2011 to nil on the closure of the scheme in October 2012. Financial guarantees to depositors with the public sector banks continue to reduce as fixed term deposits mature, and during 2011-12 the remote contingent liability reduced from £21 billion to £14 billion.

Credit easing scheme

The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and helps businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. The NLGS uses government guarantees on unsecured borrowing by banks, enabling them to borrow at a cheaper rate. Participating banks pass on the entire benefit that they receive from the guarantees to businesses across the UK through cheaper loans. An initial allocation of £5 billion in guaranteed funding has been made to participating banks.

IMF's New Arrangements to Borrow

As a member of the International Monetary Fund (IMF), the UK is committed to a credit arrangement called the New Arrangements to Borrow (NAB). The NAB is a credit arrangement to provide supplementary resources in the form of contingent loans to the IMF when these are needed to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system.

On 1 April 2011, IMF members agreed to the activation of an expanded NAB. The UK's commitment to the new NAB is SDR 18.66 billion (£18.39 billion). The new NAB, however, can only be used to finance programmes agreed after its activation. Previously agreed programmes will continue to be funded from the quota and bilateral loans. The UK, along with all other major bilateral creditors, has agreed to keep open its bilateral loan facility of SDR 9.92 billion (£9.77 billion) for this purpose, on the condition that combined drawings from the UK's share of the NAB and the UK's bilateral loan do not exceed SDR 18.66 billion.

European Financial Stabilisation Mechanism

The UK is a member of the European Financial Stabilisation Mechanism (EFSM), which provides support to all EU Member States. The European Financial Stabilisation Mechanism (EFSM) was established in May 2010 under Article 122 (2) of the Treaty on the Functioning of the European Union. The EFSM has a lending capacity of €60 billion and can lend money to any EU Member State via the European Commission raising money on capital markets, guaranteed by the EU budget. The UK's liability would only crystallise if a beneficiary state were to permanently default on its loans; the precise UK share would be determined by the Own Resources Decision on financing the EU budget. Had the Mechanism lent the full €60 billion, it is estimated that the UK's liability would be around 14 per cent of the total amount drawn down, €8.4 billion. The actual lending by the Mechanism as at 31 March 2011 is €8.4 billion, all to Ireland, and as a result, the UK's actual exposure as at 31 March 2011 is £1 billion, at the

exchange rate of 1.1297 prevailing at 31 March 2011. Through the Mechanism, a further €14.1 billion is available to Ireland and €26.0 billion to Portugal as agreed in May 2011.

Note 39. Prior period adjustments

Prior period adjustments in WGA arose from WGA bodies restating, reclassifying or correcting 2009-10 figures in their 2010-11 accounts. Material prior period adjustments arising from the first time adoption of IFRS, changes in accounting policy or from changes in the WGA boundary are detailed below.

Restatement of the Consolidated Statement of Revenue and Expenditure For the year ended 31 March 2010

		2010 reported	WGA boundary change	First time adoption of IFRS	Accounting policy change	2010 restated
	<i>Note</i>	£bn	£bn	£bn	£bn	£bn
Taxation revenue	3	(485.3)	-	-	-	(485.3)
Revenue from sales of goods and services	4	(51.0)	-	-	-	(51.0)
Other revenue	5	(45.7)	(0.6)	(1.0)	0.2	(47.1)
Total operating revenue		(582.0)	(0.6)	(1.0)	0.2	(583.4)
Social security benefits	6	197.1	-	-	-	197.1
Staff costs	7	179.7	-	-	-	179.7
Pension indexation conversion	7	0.7	-	-	-	0.7
Purchase of goods and services	8	160.9	-	-	-	160.9
Cost of grants and subsidies	9	66.2	-	-	-	66.2
Depreciation and impairment charges	10	51.6	-	-	-	51.6
Provision expense	25	(17.0)	-	-	-	(17.0)
Other expenditure	11	26.5	0.4	1.2	(0.1)	28.0
Total operating expenditure		665.7	0.4	1.2	(0.1)	667.2
Net deficit/(surplus) before financing costs		83.7	(0.2)	0.2	0.1	83.8
Investment revenue	12	(4.3)	(0.1)	-	-	(4.4)
Finance costs	13	34.9	0.2	-	(2.0)	33.1
Interest on pension scheme liabilities	27	58.9	-	-	-	58.9
Expected return on funding pension scheme assets	27	(9.0)	-	-	-	(9.0)
Net financing costs		80.5	0.1	-	(2.0)	78.6
Net (gain)/loss on sale of assets		0.3	-	-	-	0.3
Net deficit/(surplus) for the year		164.5	(0.1)	0.2	(1.9)	162.7

Restatement of the Consolidated Statement of Financial Position As at 31 March 2010

	Note	2010 reported £bn	WGA boundary change £bn	First time adoption of IFRS £bn	Accounting policy change £bn	2010 restated £bn
Non-current assets						
Property, plant and equipment	14	708.0	0.3	(0.1)	4.6	712.8
Investment property	15	14.6	-	(1.7)	(0.9)	12.0
Intangible assets	16	36.3	0.1	0.1	(0.2)	36.3
Trade and other receivables	17	40.0	0.1	0.3	(26.0)	14.4
Equity investment in the public sector banks	18	65.3	(4.2)	-	-	61.1
Other financial assets	22	89.6	4.6	0.1	24.9	119.2
Total non-current assets		953.8	0.9	(1.3)	2.4	955.8
Current assets						
Inventories	20	12.4	(0.1)	-	(0.3)	12.0
Trade and other receivables	17	125.7	0.2	0.3	(1.2)	125.0
Cash and cash equivalents	21	8.1	5.5	6.0	0.1	19.7
Gold holdings		7.3	-	-	-	7.3
Assets held for sale	19		-	0.8	0.9	1.7
Other financial assets	22	100.2	33.0	(6.5)	1.3	128.0
Total current assets		253.7	38.6	0.6	0.8	293.7
Current liabilities						
Trade and other payables	23	(102.5)	(1.4)	0.8	-	(103.1)
Government borrowing and financing	24	(200.9)	-	-	-	(200.9)
Provisions for liabilities and charges	25	(15.4)	0.1	(0.6)	0.2	(15.7)
Other financial liabilities	26	(36.3)	(236.6)	-	2.8	(270.1)
Total current liabilities		(355.1)	(237.9)	0.2	3.0	(589.8)
Non-current liabilities						
Trade and other payables	23	(73.7)	-	0.7	(1.0)	(74.0)
Government borrowing and financing	24	(764.7)	183.8	-	-	(580.9)
Provisions for liabilities and charges	25	(86.2)	-	0.1	(0.4)	(86.5)
Net public service pension liability	27	(1,132.3)	0.1	(2.3)	(0.2)	(1,134.7)
Other financial liabilities	26	(7.3)	(0.4)	-	(3.8)	(11.5)
Total non-current liabilities		(2,064.2)	183.5	(1.5)	(5.4)	(1,887.6)
Net liabilities		(1,211.8)	(14.9)	(2.0)	0.8	(1,227.9)
Liabilities to be funded by future revenues:						
General reserve	SoCTE	1,414.6	15.7	(0.9)	(2.5)	1,426.9
Revaluation reserve	SoCTE	(218.6)	(0.8)	2.9	1.6	(214.9)
Other reserves	SoCTE	15.8	-	-	0.1	15.9
Total liabilities to be funded by future rever		1,211.8	14.9	2.0	(0.8)	1,227.9

WGA boundary changes

The 2009-10 balances of bodies that were consolidated in the 2010-11 WGA for the first time are disclosed as a prior period adjustment. The most significant bodies to be consolidated for the first time in 2010-11 were the Bank of England (BOE) and Bank of England Asset Purchase Facility Fund (BEAPFF). As at 28 February 2010 (its reporting period end), the Bank of England had net assets of £4.2 billion.

The addition of £236.6 billion to other financial liabilities comprises mostly deposits from banks and financial institutions that the Bank of England held. The reduction of £183.8 billion to government financing and borrowing is mainly due to the holding of gilts that BEAPFF held and which were included in the 2009-10 WGA as a liability but now need to be eliminated upon BEAPFF's consolidation in WGA. The addition to other financial assets is principally notes issued in circulation by BOE. Other significant balances held by BOE and BEAPFF eliminate on consolidation to WGA.

Quantifiable contingent liabilities at 31 March 2010 as disclosed in Note 32 have been restated due to the consolidation of the Bank of England. The 2009-10 accounts disclosed an indemnity between the Treasury and BOE in relation to the Special Liquidity Scheme with potential liabilities of £165 billion payable by the Treasury to BOE. Similarly, the 2009-10 accounts disclosed remote quantifiable contingent liabilities of £45.6 billion in relation to BOE's notes in circulation and £200 billion in relation to the BEAPFF. As these are between WGA entities in 2010-11, they are not WGA contingent liabilities and therefore do not appear in these accounts. Details of these indemnities continue to be disclosed in the accounts of the National Loans Fund and the Treasury.

First time adoption of IFRS

Local authorities adopted IFRS based accounts for the first time in 2010-11, and the accounting policies have been updated to reflect this. This has resulted in the restatement of various balances and transactions, with some amounts presented in the financial statements in a different way from the equivalent figures presented in the 2009-10 financial statements.

Cash

Local authorities previously included short term deposits with a term of less than 3 months in other financial assets but under IFRS they report them as cash equivalents. This has increased the cash and cash equivalents balance.

Leases

Local authorities reviewed their lease arrangements to determine whether they were finance or operating leases. As a result, this increased the value of assets and finance lease creditors, and impacted on the Statement of Revenue and Expenditure and on reclassification of operating lease costs to interest charges on finance leases. Significant adjustments included the recognition of an investment property asset of £0.3 billion and finance lease creditor of £0.3 billion by Transport for London.

Employee benefits

Local authorities now include the cost of short-term compensated absences to be recognised when employees render the services that increase their entitlement. This resulted in additional accruals being recognised.

Investment properties

Investment properties were restated by £2.6 billion. Of this, £2.1 billion related to local authorities, who reclassified investment property to property, plant and equipment. Local authorities adopted the International Public Sector Accounting Standards (IPSAS) definition of investment property as one that is used solely to earn rentals or for capital appreciation, or both. Property that is used to facilitate the

delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of investment property were reclassified to property, plant and equipment.

Reclassifications

Reclassifications occurred where the IFRS based Code required a different presentation of items in the Statement of Revenue and Expenditure or Statement of Financial Position, rather than there being a change in the value of the underlying asset or liability. This included assets held for sale (£1.4 billion) and investment properties which needed to be disclosed separately. It also included certain assets that would be classified as tangible fixed assets under UK GAAP (for example computer software costs) to be separately disclosed as intangible assets, under IAS 38 '*Intangible Assets*'.

In 2009-10, local authorities did not make the split between land and buildings, so their figures were included in buildings. In 2010-11, land has been identified separately.

Changes of accounting policy

Student loans

Student loans of £27.7 billion have been reclassified from receivables to other financial assets.

Student loans are held at amortised cost. The gross value of the loans issued is discounted to net present value using the effective interest rate which for student loans is RPI plus the Government's long term cost of borrowing, 2.2%. Prior to 2010-11, student loans had been accounted for in accordance with guidance received from the Financial Reporting Advisory Board (FRAB). The FRAB has since amended their guidance. This has led to the removal of the inflation adjustment and a change in the effective interest rate. These changes have been classified as a change in accounting policy, and have been treated as prior period adjustments. The net impact of the adjustments on the Statement of Financial Position was £0.6 billion and on the Statement of Revenue and Expenditure was £0.2 billion.

Commitments under leases

There were a number of reclassification of leases between land, buildings and other in 2010-11 compared to 2009-10. Significant adjustments included £9 billion by the Ministry of Defence due to a change of accounting policy, £1.7 billion by the Department of Health as a result of getting better data collection from PCTs, and due to NHS trusts putting 2009-10 data to "other" as they couldn't break down their figures.

MOD restated its finance leases to include commitments in respect of leased land following a change in accounting policy. Land held subject to long leases previously treated as operating leases was required to be reclassified as finance leases. This impacted on the value of assets held as investment properties, finance lease receivables, deferred income, and retained earnings.

Ministry of Defence capitalisation threshold

The Ministry of Defence changed its capitalisation threshold from £10,000 to £25,000 during the year, decreasing the non-current asset balance by approximately £0.25 billion.

Other

Inventories were restated by £0.2 billion. Almost all this balance is due to the Olympic Delivery Authority reclassifying land and buildings for resale to assets under construction in property, plant and equipment.

Note 40. Date authorised for issue

The financial statements were authorised for issue on 29 October 2012.

Annex 1: List of entities consolidated in WGA

The list below comprises entities consolidated in WGA based on their audited accounts.

Central government

Central government entities with a number 1 by their name have had qualifications on their financial statements and those with a number 2 by their name have had a qualification on regularity⁷². These may be considered in the WGA Statement on Internal Control. In addition the WGA returns, which translate the underlying statutory accounts into the WGA format, for the Department of Health, NHS Trusts and academies were also qualified.

Advantage West Midlands
 Agriculture & Horticulture Development Board
 Agrifood and Biosciences Institute of Northern Ireland
 Armagh Planetarium and Observatory
 Armed Forces Retired Pay, Pensions etc
 Arts and Humanities Research Council
¹Arts Council of England
¹Arts Council of England Lottery
 Arts Council of Northern Ireland
 Arts Council of Northern Ireland Lottery Distribution Account
 Arts Council of Wales
 Arts Council of Wales National Lottery
^{1,2}Belfast Education & Library Board - Northern Ireland
 Big Lottery Fund
¹Biotechnology and Biological Sciences Research Council
 British Broadcasting Corporation Television Licence Fee Trust Statement
 British Educational Communications and Technology Agency
 British Film Institute
 British Library
 British Museum
 British Railways Board (Residuary) Ltd
 British Transport Police
 Business Services Organisation
 Cabinet Office
^{1,2}Cabinet Office: Civil superannuation
 Capacity Builders

Care Council for Wales
 Care Quality Commission
 Charity Commission
 Children and Family Court Advisory and Support Service
 Children's Workforce Development Council
 Civil Nuclear Police Authority and Constabulary
 Coal Authority
 Commission for Local Administration
 Community Development Foundation
 Community Relations Council for Northern Ireland
 Competition Commission
 Consolidated Fund
 Construction Skills
 Consumer Focus
 Contingencies Fund
 Countryside Council for Wales
 Criminal Injuries Compensation Authority
 Debt Management Account
 Department for Business Innovation and Skills
 Department for Business, Innovation and Skills: UKAEA pension schemes
 Department for Education
 Department for Communities and Local Government
 Department for Culture, Media and Sport
 Department for Employment and Learning - Northern Ireland
^{1,2}Department for Environment, Food and Rural Affairs
 Department for International Development
 Department for International Development: Overseas Superannuation
²Department for Regional Development - Northern Ireland
²Department for Social Development - Northern Ireland
²Department for Transport
²Department for Work and Pensions
 Department for Work and Pensions Financial Assistance Scheme Trust Statement
²Department of Agriculture and Rural Development - Northern Ireland
^{1,2}Department of Culture Arts and Leisure - Northern Ireland
²Department of Education - Northern Ireland
 Department of Energy and Climate Change
 Department of Energy and Climate Change Trust Statement
 Department of Enterprise Trade and Investment - Northern Ireland
 Department of Finance and Personnel - Northern Ireland

⁷² A regularity opinion is on whether the transactions recorded in the financial statements are in accordance with Parliamentary or other authority.

Department of Health
 Department of Health Social Services & Public Safety
 Department of Justice - Northern Ireland
 Department of the Environment - Northern Ireland
 DFP - Superannuation & Other Allowances - Northern Ireland
 Driver and Vehicle Licensing Agency
 East Midlands Regional Development Agency
 East of England Development Agency
 Economic and Social Research Council
 Engineering and Physical Sciences Research Council
 Engineering Construction Industry Training Board
 English Heritage
 Environment Agency
 Equality and Human Rights Commission
 Equality Commission for Northern Ireland
 Estyn - Her Majesty's Inspectorate for Education and Training in Wales
 Exchange Equalisation Account
 Export Credits Guarantee Department
 Food Standards Agency
 Foreign and Commonwealth Office
 Forestry Commission
 Gambling Commission
 Geffrye Museum
 General Registers of Scotland
 General Social Care Council
 Government Actuary's Department
 Government Equalities Office
 Guaranteed Export Finance Corporation
 Health Protection Agency
 Heritage Lottery Fund
 Higher Education Funding Council for England
 Higher Education Funding Council for Wales
¹Highlands and Islands Enterprise
¹HM Courts Service Trust Statement
 HM Procurator General and Treasury Solicitor
 HM Revenue and Customs
²HM Revenue and Customs Trust Statement
 HM Treasury
 Home Office
 Homes and Communities Agency
 Horniman Museum
 Horserace Betting Levy Board
 HPSS Superannuation Account - Northern Ireland
²Ilex Urban Regeneration Co Ltd
 Imperial War Museum
 Independent Living Fund
 Independent Police Complaints Commission
 Independent Safeguarding Authority
 Invest Northern Ireland
 Land Registry
 Learning and Skills Improvement Service
 Learning and Teaching Scotland
^{1,2}Legal Services Commission
 London and Continental Railways Limited
 London Organising Committee of the Olympic Games Limited
 London Thames Gateway Development Corporation
 Marine Management Organisation
 Medical Research Council
¹Ministry of Defence
 Ministry of Justice
 Ministry of Justice: Judicial Pensions Scheme
 Monitor – Independent Regulator of NHS Trusts
 Museum of Science and Industry in Manchester
 Museums, Libraries and Archives Council
 National Archives of Scotland
 National Army Museum
 National College for Schools Leadership
 National Employment Savings Trust
 National Endowment for Science, Technology and the Arts
 National Galleries of Scotland
 National Gallery
 National Health Service Pension Scheme
 National Heritage Memorial Fund
 National Insurance Fund
 National Insurance Fund (Northern Ireland)
 National Library of Scotland
 National Library of Wales
 National Loans Fund
 National Lottery Distribution Fund
 National Lottery: UKSC Lottery
 National Maritime Museum
 National Museum of Science and Industry
 National Museums and Galleries of Northern Ireland
 National Museums and Galleries of Wales
 National Museums Liverpool
 National Museums of Scotland
 National Policing Improvement Agency
 National Portrait Gallery
 National Savings and Investments
 National School of Government
 Natural England
 Natural Environment Research Council
 Natural History Museum
^{1,2}North Eastern Education and Library Board - Northern Ireland
 North West Regional Development Agency
 Northern Ireland Authority for Energy Regulation
 Northern Ireland Blood Transfusion Service
 Northern Ireland Consolidated Fund

Northern Ireland Council for the Curriculum,
 Examinations and Assessment
 Northern Ireland Fire and Rescue Service
 Northern Ireland Fishery Harbour Authority
^{1,2}Northern Ireland Legal Services Commission
¹Northern Ireland Library Authority
 Northern Ireland Local Government Officers
 Superannuation Committee
 Northern Ireland Medical and Dental Training Agency
²Northern Ireland National Insurance Fund
 Northern Ireland Office
 Northern Ireland Policing Board
 Northern Ireland Screen Commission
 Northern Ireland Tourist Board
 Nuclear Decommissioning Authority
 Nuclear Liabilities Fund
 Office for National Statistics
 Office for Standards in Education, Children's Services
 and Skills
 Office of Fair Trading
 Office of Fair Trading Trust Statement
 Office of Gas and Electricity Markets
 Office of Gas and Electricity Markets Trust Statement
 Office of Rail Regulation
²Office of the First Minister and Deputy First Minister -
 Northern Ireland
 Office of the Information Commissioner
 Olympic Delivery Authority
 Olympic Lottery Distribution Fund
 Olympic Lottery Distributor
 One North East
 Partnerships for Schools
 Police Ombudsman for Northern Ireland
 Police Pension Scheme - Northern Ireland Office
 Police Service of Northern Ireland
 Postal Services Commission
 Probation Board for Northern Ireland
 Public Prosecution Service - Northern Ireland
 Public Works Loans Board
 Qualifications and Curriculum Development Agency
 Regulation and Quality and Improvement Agency
 Research Councils Pension Scheme
 Research Councils Shared Service Centre
 Royal Air Force Museum
 Royal Armouries Museum
 Royal Botanic Garden, Edinburgh
 Royal Botanic Gardens, Kew
 Royal Hospital, Chelsea
 School Food Trust
¹Science and Technology Facilities Council
 Scottish Arts Council
 Scottish Childrens Reporter Administration
 Scottish Commission for the Regulation of Care
 Scottish Consolidated Fund
 Scottish Enterprise
 Scottish Environment Protection Agency
 Scottish Funding Council
 Scottish Government
 Scottish Legal Aid Board
 Scottish Natural Heritage
 Scottish NHS Pension Scheme
 Scottish Police Services Authority
 Scottish Qualifications Authority
 Scottish Social Services Council
 Scottish Teachers Pension Scheme
 Security and Intelligence Agencies
 Security Industry Authority
 Serious Fraud Office
 Serious Organised Crime Agency
 Skills Development Scotland
 South East England Development Agency
^{1,2}South Eastern Education and Library Board -
 Northern Ireland
 South West Regional Development Agency
^{1,2}Southern Education and Library Board - Northern
 Ireland
 Sport England
 Sport England Lottery
 Sport Scotland
 Sports Council for Northern Ireland
 Sports Council for Northern Ireland Lottery
 Distribution Account
 Sports Council for Wales
 Strategic Investment Board
 Student Loans Company Ltd
 Tate Gallery
²Teachers' Pension Scheme (England & Wales)
 Teachers Superannuation Scheme Statements -
 Northern Ireland
 Technology Strategy Board
 Tenant Services Authority
 The Crown Prosecution Service
 The National Archives
 The Pensions Regulator
 The Valuation Tribunal Service
 Thurrock Urban Development Corporation
 Training and Development Agency for Schools
 Trust Statement in respect of National Non-Domestic
 Rates
 University for Industry Limited
 UK Commission for Employment and Skills
 UK Film Council
 UK Sport
 UK Trade & Investment

Ulster Supported Employment Limited - Northern
 Ireland
 United Kingdom Atomic Energy Authority
 Vehicle Excise Duty
 Victoria and Albert Museum
 Visit Britain
 Visit Scotland
 Wallace Collection
 Water Services Regulation Authority
 Welsh Assembly Government
 Welsh Consolidated Fund
 Welsh Language Board
 West Northants UDC
^{1,2}Western Education and Library Board - Northern
 Ireland
 Yorkshire Forward
 Young People's Learning Agency
 Youth Justice Board for England and Wales

English National Health Service Trusts

Airedale NFT
 Ashford and St Peter's Hospitals NFT
 Ashton, Leigh & Wigan Community Healthcare NFT
 Avon and Wiltshire Mental Health Partner NFT
 Barking, Havering and Redbridge Hospital NFT
 Barnet and Chase Farm Hospitals NFT
 Barnet, Enfield and Haringey Mental Heal NFT
 Barts and The London NFT
 Bedford Hospitals NFT
 Birmingham Community Healthcare NFT
 Bradford District Care Trust NFT
 Brighton and Sussex University Hospitals NFT
 Buckinghamshire Hospitals NFT
 Cambridgeshire Community Services NFT
 Central London Community Healthcare NFT
 Coventry and Warwickshire Partnership NHS Trust
 Dartford and Gravesham NFT
 Derbyshire Mental Health Services NFT
 Devon Partnership NFT
 Dudley and Walsall Mental Health Partnership NHS
 Trust
 Ealing Hospital NFT
 East And North Hertfordshire NFT
 East Cheshire NFT
 East Lancashire Hospitals NFT
 East Midlands Ambulance Service NHS Trust
 East of England Ambulance Service NHS Trust
 East Sussex Hospitals NFT
 Eastern and Coastal Kent Community Health NFT
 Epsom and St Helier University Hospitals NFT
 Foundation Trust Summary Account

George Eliot Hospital NFT
 Great Ormond Street Hospital NFT
 Great Western Ambulance Service NHS Trust
 Hereford Hospitals NFT
 Hertfordshire Community NFT
 Hinchingbrooke Health Care NFT
 Hull and East Yorkshire Hospitals NFT
 Imperial College Healthcare NFT
 Ipswich Hospital NFT
 Kent and Medway NHS and Social Care Partnership
 Trust
 Kings Lynn and Wisbech Hospitals NFT
 Kingston Hospital NFT
 Leeds Teaching Hospitals NFT
 Leicestershire Partnership NFT
 Liverpool Community Healthcare NFT
 Local Health Partnerships NFT
 London Ambulance Service NFT
 Maidstone and Tunbridge Wells NFT
 Manchester Mental Health and Social Care NFT
 Mayday Healthcare NFT
 Mersey Care NFT
 Mid Essex Hospital Services NFT
 Mid Yorkshire Hospitals NFT
 Morecambe Bay Hospitals NFT
 Newham Healthcare NFT
 NHS Direct NHS Trust
 Norfolk Community Health and Care NFT
 North Bristol NFT
 North Cumbria Acute Hospitals NFT
 North East Ambulance Service NHS Trust
 North Middlesex University Hospital NFT
 North Staffordshire Combined Healthcare NFT
 North West Ambulance Service NHS Trust
 North West London Hospitals NFT
 Northampton General Hospital NFT
 Northern Devon Healthcare NFT
 Nottingham University Hospitals NHS Trust
 Nottinghamshire Healthcare NFT
 Nuffield Orthopaedic Centre NFT
 Oxford Radcliffe Hospitals NFT
 Oxfordshire Learning Disability NFT
 Pennine Acute Hospitals NFT
 Plymouth Hospitals NFT
 Portsmouth Hospitals NFT
 Robert Jones and Agnes Hunt Orthopaedic NFT
 Royal Cornwall Hospitals NFT
 Royal Free Hampstead NFT
 Royal Liverpool and Broadgreen University NFT
 Royal National Orthopaedic Hospital NFT
 Royal United Hospital Bath NFT
 Sandwell and West Birmingham Hospitals NFT

Scarborough and North East Yorkshire Healthcare NFT
 Shrewsbury and Telford Hospitals NFT
 South Central Ambulance Service NHS Trust
 South Downs Health NFT
 South East Coast Ambulance Service NHS Trust
 South London Healthcare NHS Trust
 South West London and St George's Mental NFT
 South Western Ambulance Service NHS Trust
 Southampton University Hospitals NFT
 Southport and Ormskirk Hospital NFT
 St George's Healthcare NFT
 St Helens and Knowsley Hospitals NFT
 Surrey And Sussex Healthcare NFT
 The Hillingdon Hospital NFT
 The Lewisham Hospital NFT
 The Princess Alexandra Hospital NFT
 The Royal Wolverhampton Hospitals NFT
 The Whittington Hospital NFT
 Trafford Healthcare NFT
 United Lincolnshire Hospitals NFT
 University Hospital of North Staffordshire NFT
 University Hospitals Coventry and Warwick NFT
 University Hospitals of Leicester NFT
 Walsall Hospitals NFT
 West Hertfordshire Hospitals NFT
 West London Mental Health NFT
 West Middlesex University NFT
 West Midlands Ambulance Service NHS Trust
 West Suffolk Hospitals NFT
 Western Sussex Hospitals NFT
 Weston Area Health NFT
 Whipps Cross University Hospital NFT
 Winchester and Eastleigh Healthcare NFT
 Worcestershire Acute Hospitals NFT
 Worcestershire Mental Health Partnership NFT
 Yorkshire Ambulance Service NHS Trust

English National Health Services Foundation Trusts

2gether NHS Foundation Trust
 5 Boroughs Partnership Foundation Trust
 Aintree University Hospitals NHS Foundation Trust
 Airedale Foundation Trust
 Alder Hey Childrens NHS Foundation Trust
 Ashford and St Peter's Hospitals FT
 Barnsley Hospital NHS Foundation Trust
 Basildon and Thurrock University Hospitals NHS Foundation Trust
 Basingstoke and North Hampshire NHS Foundation Trust

Berkshire Healthcare NHS Foundation Trust
 Birmingham and Solihull Mental Health NHS Foundation Trust
 Birmingham Childrens Hospital NHS Foundation Trust
 Birmingham Womens NHS Foundation Trust
 Blackpool Fylde and Wyre Hospitals NHS Foundation Trust
 Bradford Teaching Hospitals NHS Foundation Trust
 Burton Hospitals NHS Foundation Trust
 Calderdale and Huddersfield NHS Foundation Trust
 Calderstones Partnership NHS Foundation Trust
 Cambridge University Hospitals NHS Foundation Trust
 Cambridgeshire and Peterborough NHS Foundation Trust
 Camden and Islington NHS Foundation Trust
 Central and North West London NHS Foundation Trust
 Central Manchester University Hospitals NHS Foundation Trust
 Chelsea and Westminster Hospital NHS Foundation Trust
 Cheshire and Wirral Partnership NHS Foundation Trust
 Chesterfield Royal Hospital NHS Foundation Trust
 City Hospitals Sunderland NHS Foundation Trust
 Clatterbridge Centre for Oncology NHS Foundation Trust
 Colchester Hospital University NHS Foundation Trust
 Cornwall Partnership Foundation Trust
 Countess of Chester Hospital NHS Foundation Trust
 County Durham and Darlington NHS Foundation Trust
 Cumbria Partnership NHS Foundation Trust
 Derby Hospitals NHS Foundation Trust
 Doncaster and Bassetlaw Hospitals NHS Foundation Trust
 Dorset County Hospital NHS Foundation Trust
 Dorset Healthcare NHS Foundation Trust
 East Kent Hospitals University NHS Foundation Trust
 East London NHS Foundation Trust
 Foundation Trust Summary Account
 Frimley Park Hospital NHS Foundation Trust
 Gateshead Health NHS Foundation Trust
 Gloucestershire Hospitals NHS Foundation Trust
 Great Western Hospitals NHS Foundation Trust
 Greater Manchester West Mental Health NHS Foundation Trust
 Guy's and St Thomas' NHS Foundation Trust
 Hampshire Partnership NSH Foundation Trust
 Harrogate and District NHS Foundation Trust
 Heart of England NHS Foundation Trust
 Heatherwood and Wexham Park Hospitals NHS Foundation Trust
 Hertfordshire Partnership NHS Foundation Trust
 Homerton University Hospital FT

Humber NHS Foundation Trust
James Paget University Hospitals NHS Foundation Trust
Kettering General Hospital FT
Kings College Hospital NHS Foundation Trust
Lancashire Care NHS Foundation Trust
Lancashire Teaching Hospitals NHS Foundation Trust
Leeds Partnerships NHS Foundation Trust
Lincolnshire Partnership NHS Foundation Trust
Liverpool Heart and Chest Hospital NHS Foundation Trust
Liverpool Womens NHS Foundation Trust
Luton and Dunstable Hospital NHS Foundation Trust
Medway NHS Foundation Trust
Mid Cheshire Hospitals NHS Foundation Trust
Mid Staffordshire NHS Foundation Trust
Milton Keynes Hospital NHS Foundation Trust
Moorfields Eye Hospital NHS Foundation Trust
Norfolk and Norwich University Hospitals NHS Foundation Trust
Norfolk and Waveney Mental Health NHS Foundation Trust
North East London NHS Foundation Trust
North Essex Partnership NHS Foundation Trust
North Tees and Hartlepool NHS Foundation Trust
Northamptonshire Healthcare NHS Foundation Trust
Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
Northumberland, Tyne and Wear NHS Foundation Trust
Northumbria Healthcare NHS Foundation Trust
Oxfordshire and Buckinghamshire Mental Health NHS Foundation Trust
Oxleas NHS Foundation Trust
Papworth Hospital NHS Foundation Trust
Pennine Care NHS Foundation Trust
Peterborough and Stamford Hospitals NHS Foundation Trust
Poole Hospital NHS Foundation Trust
Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust
Rotherham Doncaster and South Humber Mental Health NHS Foundation Trust
Royal Berkshire NHS Foundation Trust
Royal Bolton Hospital NHS Foundation Trust
Royal Brompton and Harefield NHS Foundation Trust
Royal Devon and Exeter NHS Foundation Trust
Royal National Hospital For Rheumatic Diseases NHS Foundation Trust
Royal Surrey County Hospital NHS Foundation Trust
Salford Royal NHS Foundation Trust
Salisbury NHS Foundation Trust

Sandwell Mental Health and Social Care NHS Foundation Trust
Sheffield Children's NHS Foundation Trust
Sheffield Health & Social Care NHS Foundation Trust
Sheffield Teaching Hospitals NHS Foundation Trust
Sherwood Forest Hospitals NHS Foundation Trust
Somerset Partnership NHS Foundation Trust
South Devon Healthcare NHS Foundation Trust
South East Coast Ambulance Service NHS Foundation Trust
South Essex Partnership University NHS Foundation Trust
South London and Maudsley NHS Foundation Trust
South Staffordshire and Shropshire Healthcare NHS Foundation Trust
South Tees Hospitals NHS Foundation Trust
South Tyneside NHS Foundation Trust
South Warwickshire General Hospitals Foundation Trust
South West Yorkshire Partnership NHS Foundation Trust
South Western Ambulance Service NHS Foundation Trust
Southend University Hospital NHS Foundation Trust
Stockport NHS Foundation Trust
Surrey and Borders Partnership NHS Foundation Trust
Sussex Partnership NHS Foundation Trust
Tameside Hospital NHS Foundation Trust
Taunton and Somerset NHS Foundation Trust
Tavistock and Portman NHS Foundation Trust
Tees, Esk and Wear Valleys NHS Foundation Trust
The Christie NHS Foundation Trust
The Dudley Group of Hospitals NHS Foundation Trust
The Newcastle Upon Tyne Hospitals NHS Foundation Trust
The Queen Victoria Hospital FT
The Rotherham NHS Foundation Trust
The Royal Bournemouth & Christchurch Hospitals NHS Foundation Trust
The Royal Marsden NHS Foundation Trust
The Royal Orthopaedic Hospital NHS Foundation Trust
The Walton Centre NHS Foundation Trust
University College London Hospitals NHS FT
University Hospital of South Manchester NHS Foundation Trust
University Hospitals Birmingham NHS Foundation Trust
University Hospitals Bristol NHS Foundation Trust
University Hospitals of Morecambe Bay NHS Foundation Trust
Warrington and Halton Hospitals NHS Foundation Trust

Wirral University Teaching Hospital NHS Foundation Trust
Wrightington, Wigan and Leigh NHS Foundation Trust
Yeovil District Hospital NHS Foundation Trust
York Hospitals NHS Foundation Trust

Northern Irish Health and Social Care Trusts

Belfast Health and Social Care Trust
NI Ambulance Service HSS Trust
Northern Health and Social Care Trust
South Eastern Health and Social Care Trust
Southern Health and Social Care Trust
Western Health and Social Care Trust

Welsh National Health Service Trusts

Velindre NHS Trust
Welsh Ambulance Services
Public Health Wales NHS Trust

Local government – England

Local government entities with a number 1 by their name have had qualifications on their financial statements. These may be considered in the WGA Statement on Internal Control.

Adur District Council
Allerdale Borough Council
Amber Valley Borough Council
Arun District Council
Ashfield District Council
Ashford Borough Council
Avon and Somerset Police Authority
Avon Fire Authority
Aylesbury Vale District Council
Babergh District Council
Barking & Dagenham London Borough Council
Barnet London Borough Council
Barnsley Metropolitan Borough Council
Barrow-in-Furness Borough Council
Basildon District Council
Basingstoke and Deane Borough Council
Bassetlaw District Council
Bath & North East Somerset Council
Bedford Unitary Authority
Bedfordshire and Luton Fire Authority
Bedfordshire Police Authority
Bexley London Borough Council
Birmingham City Council

Blaby District Council
Blackburn with Darwen Borough Council
Blackpool Borough Council
Bolsover District Council
Bolton Metropolitan Borough Council
Boston Borough Council
Bournemouth Council
Bracknell Forest Borough Council
Bradford City Council
Braintree District Council
Breckland District Council
Brent London Borough Council
¹Brentwood Borough Council
Brighton & Hove City Council
Bristol City Council
Broadland District Council
Broads Authority (The)
Bromley London Borough Council
Bromsgrove District Council
Broxbourne Borough Council
Broxtowe Borough Council
Buckinghamshire and Milton Keynes Fire Authority
Buckinghamshire County Council
Burnley Borough Council
Bury Metropolitan Borough Council
Calderdale Metropolitan Borough Council
Cambridge City Council
Cambridgeshire and Peterborough Fire Authority
Cambridgeshire County Council
Cambridgeshire Police Authority
Camden London Borough Council
Cannock Chase District Council
Canterbury City Council
Carlisle City Council
Castle Point Borough Council
Central Bedfordshire Unitary Authority
Charnwood Borough Council
Chelmsford Borough Council
Cheltenham Borough Council
Cherwell District Council
Cheshire East Unitary Authority
Cheshire Fire Authority
Cheshire Police Authority
Cheshire West and Chester Unitary Authority
Chesterfield Borough Council
Chichester District Council
Chiltern District Council
Chorley Borough Council
Christchurch Borough Council
City of York Council
Cleveland Fire Authority
Cleveland Police Authority

Colchester Borough Council
Common Council of the City of London
Copeland Borough Council
Corby Borough Council
Cornwall Unitary Authority
Cotswold District Council
County Durham and Darlington Fire and Rescue Authority
County Durham Unitary Authority
Coventry City Council
Craven District Council
Crawley Borough Council
Croydon London Borough Council
Cumbria County Council
Cumbria Police Authority
Dacorum Borough Council
Darlington Borough Council
Dartford Borough Council
Dartmoor National Park Authority
Daventry District Council
Derby City Council
Derbyshire County Council
Derbyshire Dales District Council
Derbyshire Fire Authority
Derbyshire Police Authority
Devon & Somerset Fire and Rescue Authority
Devon and Cornwall Police Authority
Devon County Council
Doncaster Metropolitan Borough Council
Dorset County Council
Dorset Fire Authority
Dorset Police Authority
Dover District Council
Dudley Metropolitan Borough Council
Durham Police Authority
Ealing London Borough Council
East Cambridgeshire District Council
East Devon District Council
East Dorset District Council
East Hampshire District Council
East Hertfordshire District Council
East Lindsey District Council
East London Waste Authority
East Northamptonshire District Council
East Riding of Yorkshire Council
East Staffordshire Borough Council
East Sussex County Council
East Sussex Fire Authority
Eastbourne Borough Council
Eastleigh Borough Council
Eden District Council
Elmbridge Borough Council

Enfield London Borough Council
Epping Forest District Council
Epsom and Ewell Borough Council
Erewash Borough Council
Essex County Council
Essex Fire Authority
Essex Police Authority
Exeter City Council
Exmoor National Park Authority
Fareham Borough Council
Fenland District Council
Forest Heath District Council
Forest of Dean District Council
Fylde Borough Council
Gateshead Council
Gedling Borough Council
Gloucester City Council
Gloucestershire County Council
Gloucestershire Police Authority
Gosport Borough Council
Gravesham Borough Council
Great Yarmouth Borough Council
Greater London Authority
Greater Manchester Fire and Civil Defence Authority
Greater Manchester Integrated Transport Authority
Greater Manchester Police Authority
Greater Manchester Waste Disposal Authority
Greenwich London Borough Council
Guildford Borough Council
Hackney London Borough Council
Halton Borough Council
Hambleton District Council
Hammersmith and Fulham London Borough Council
Hampshire County Council
Hampshire Fire and Rescue Authority
Hampshire Police Authority
Harborough District Council
Haringey London Borough Council
Harlow District Council
Harrogate Borough Council
Harrow London Borough Council
Hart District Council
Hartlepool Borough Council
Hastings Borough Council
Havant Borough Council
Havering London Borough Council
Hereford and Worcester Fire and Rescue Authority
Herefordshire Council
Hertfordshire County Council
Hertfordshire Police Authority
Hertsmere Borough Council
High Peak Borough Council

Hillingdon London Borough Council
Hinckley and Bosworth Borough Council
Horsham District Council
Hounslow London Borough Council
Humberside Fire Authority
Humberside Police Authority
Huntingdonshire District Council
Hyndburn Borough Council
Ipswich Borough Council
Isle of Wight Council
Isles of Scilly (Council of the)
Islington London Borough Council
Kensington and Chelsea Council (Royal Borough of)
Kent and Medway Fire and Rescue Authority
Kent County Council
Kent Police Authority
Kettering Borough Council
Kings Lynn and West Norfolk Borough Council
Kingston upon Hull City Council
Kingston upon Thames Council (Royal Borough of)
Kirklees Metropolitan Council
Knowsley Metropolitan Borough Council
Lake District National Park Authority
Lambeth London Borough Council
Lancashire County Council
Lancashire Fire Authority
Lancashire Police Authority
Lancaster City Council
Lee Valley Regional Park Authority
Leeds City Council
Leicester City Council
Leicester, Leicestershire and Rutland Combined Fire
Authority
Leicestershire County Council
Leicestershire Police Authority
Lewes District Council
Lewisham London Borough Council
Lichfield District Council
Lincoln City Council
Lincolnshire County Council
Lincolnshire Police Authority
Liverpool City Council
London Development Agency
London Fire and Emergency Planning Authority
Luton Borough Council
Maidstone Borough Council
Maldon District Council
Malvern Hills District Council
Manchester City Council
Mansfield District Council
Medway Council
Melton Borough Council

Mendip District Council
Merseyside Fire and Civil Defence Authority
Merseyside Integrated Transport Authority
Merseyside Police Authority
Merseyside Waste Disposal Authority
Merton Borough Council
Metropolitan Police Authority
Mid Devon District Council
Mid Suffolk District Council
Mid Sussex District Council
Middlesbrough Council
Milton Keynes Council
Mole Valley District Council
Museum of London
New Forest District Council
New Forest National Park Authority
Newark and Sherwood District Council
Newcastle upon Tyne City Council
Newcastle-under-Lyme Borough Council
Newham London Borough Council
Norfolk County Council
Norfolk Police Authority
North Devon District Council
North Dorset District Council
North East Derbyshire District Council
North East Lincolnshire Council
North Hertfordshire District Council
North Kesteven District Council
North Lincolnshire Council
North London Waste Authority
North Norfolk District Council
North Somerset Council
North Tyneside Metropolitan Borough Council
North Warwickshire Borough Council
North West Leicestershire District Council
North York Moors National Park Authority
North Yorkshire County Council
North Yorkshire Fire and Rescue Authority
North Yorkshire Police Authority
Northampton Borough Council
Northamptonshire County Council
Northamptonshire Police Authority
Northumberland National Park Authority
Northumberland Unitary Authority
Northumbria Police Authority
Norwich City Council
Nottingham City Council
Nottinghamshire and City of Nottingham Fire and
Rescue Authority
Nottinghamshire County Council
Nottinghamshire Police Authority
Nuneaton and Bedworth Borough Council

Oadby and Wigston Borough Council	South Holland District Council
Oldham Metropolitan Borough Council	South Kesteven District Council
Oxford City Council	South Lakeland District Council
Oxfordshire County Council	South Norfolk District Council
Peak District National Park Authority	South Northamptonshire Council
Pendle Borough Council	South Oxfordshire District Council
Peterborough City Council	South Ribble Borough Council
Plymouth City Council	South Somerset District Council
Poole (Borough of)	South Staffordshire District Council
Portsmouth City Council	South Tyneside Council
Preston City Council	South Yorkshire Fire and Civil Defence Authority
Purbeck District Council	South Yorkshire Integrated Transport Authority
Reading Borough Council	South Yorkshire Police Authority
Redbridge London Borough Council	Southampton City Council
Redcar and Cleveland Borough Council	Southend-on-Sea Borough Council
Redditch Borough Council	Southwark London Borough Council
Reigate and Banstead Borough Council	Spelthorne Borough Council
Ribble Valley Borough Council	St Albans City and District Council
Richmond upon Thames Borough Council	St Edmundsbury Borough Council
Richmondshire District Council	St Helens Metropolitan Borough Council
Rochdale Borough Council	Stafford Borough Council
Rochford District Council	Staffordshire County Council
Rossendale Borough Council	Staffordshire Moorlands District Council
Rother District Council	Staffordshire Police Authority
Rotherham Borough Council	Stevenage Borough Council
Royal Berkshire Fire Authority	Stockport Metropolitan Borough Council
Rugby Borough Council	Stockton-on-Tees Borough Council
Runnymede Borough Council	Stoke-on-Trent and Staffordshire Fire Authority
Rushcliffe Borough Council	Stoke-on-Trent City Council
Rushmoor Borough Council	Stratford-on-Avon District Council
Rutland County Council	Stroud District Council
¹ Ryedale District Council	Suffolk Coastal District Council
Salford City Council	Suffolk County Council
Sandwell Metropolitan Borough Council	Suffolk Police Authority
Scarborough Borough Council	Sunderland City Metropolitan Borough Council
Sedgemoor District Council	Surrey County Council
Sefton Metropolitan Borough Council	Surrey Heath Borough Council
Selby District Council	Surrey Police Authority
Sevenoaks District Council	Sussex Police Authority
Sheffield City Council	Sutton London Borough Council
Shepway District Council	Swale Borough Council
Shropshire and Wrekin Fire Authority	Swindon Borough Council
Shropshire Unitary Authority	Tameside Metropolitan Borough Council
Slough Borough Council	Tamworth Borough Council
Solihull Metropolitan Borough Council	Tandridge District Council
Somerset County Council	Taunton Deane Borough Council
South Bucks District Council	Teignbridge District Council
South Cambridgeshire District Council	Telford and Wrekin (Borough of)
South Derbyshire District Council	Tendring District Council
South Downs National Park Authority	Test Valley Borough Council
South Gloucestershire Council	Tewkesbury Borough Council
South Hams District Council	Thames Valley Police Authority

Thanet District Council
 Three Rivers District Council
 Thurrock Borough Council
 Tonbridge and Malling Borough Council
 Torbay Council
 Torridge District Council
 Tower Hamlets London Borough Council
 Trafford Metropolitan Borough Council
 Transport for London
 Tunbridge Wells Borough Council
 Tyne & Wear Integrated Transport Authority
 Tyne and Wear Fire and Civil Defence Authority
 Uttlesford District Council
 Vale of White Horse District Council
 Wakefield City Council
 Walsall Metropolitan Borough Council
 Waltham Forest London Borough Council
 Wandsworth London Borough Council
 Warrington Borough Council
 Warwick District Council
 Warwickshire County Council
 Warwickshire Police Authority
 Watford Borough Council
 Waveney District Council
 Waverley Borough Council
 Wealden District Council
 Wellingborough Borough Council
 Welwyn Hatfield District Council
 West Berkshire Council
 West Devon Borough Council
 West Dorset District Council
 West Lancashire District Council
 West Lindsey District Council
 West London Waste Authority
 West Mercia Police Authority
 West Midlands Fire and Civil Defence Authority
 West Midlands Integrated Transport Authority
 West Midlands Police Authority
 West Oxfordshire District Council
 West Somerset District Council
 West Sussex County Council
 West Yorkshire Fire and Civil Defence Authority
 West Yorkshire Integrated Transport Authority
 West Yorkshire Police Authority
 Western Riverside Waste Authority
 Westminster City Council
 Weymouth and Portland Borough Council
 Wigan Metropolitan Borough Council
 Wiltshire and Swindon Fire Authority
 Wiltshire Police Authority
 Wiltshire Unitary Authority
 Winchester City Council

Windsor and Maidenhead (Royal Borough of)
 Wirral Metropolitan Borough Council
 Woking Borough Council
 Wokingham Council
 Wolverhampton City Council
 Worcester City Council
 Worcestershire County Council
 Worthing Borough Council
 Wychavon District Council
 Wycombe District Council
 Wyre Borough Council
 Wyre Forest District Council
 Yorkshire Dales National Park Authority

Local Government – Northern Ireland

Antrim Borough Council
 ARC 21 Joint Committee
 Ards Borough Council
 Armagh City & District Council
 Ballymena Borough Council
 Ballymoney Borough Council
 Banbridge District Council
 Belfast City Council
 Carrickfergus Borough Council
 Castlereagh Borough Council
 Coleraine Borough Council
 Cookstown District County Council
 Craigavon Borough Council
 Derry City Council
 Down District Council
 Dungannon and South Tyrone Borough Council
 Fermanagh District Council
 Larne Borough Council
 Limavady Borough Council
 Lisburn Borough Council
 Magherafelt District Council
 Moyle District Council
 Newry and Mourne District Council
 Newtownabbey Borough Council
 North Down Borough Council
 Omagh District Council
 Strabane District Council

Local Government – Scotland

Aberdeen City Council
 Aberdeenshire Council
 Angus Council
 Argyll and Bute Council
 Central Scotland Fire and Rescue Service
 Central Scotland Police
 Clackmananshire Council

Dumfries and Galloway Council
 Dundee City Council
 East Ayrshire Council
 East Dunbartonshire Council
 East Lothian Council
 East Renfrewshire Council
 Edinburgh City Council
 Falkirk Council
 Fife Council
 Forth Estuary Transport Authority
 Glasgow City Council
 Grampian Fire and Rescue Service
 Grampian Police
 Highland Council
 Highlands & Islands Fire Brigade
 Inverclyde Council
 Lothian & Borders Fire and Rescue Service
 Lothian & Borders Police
 Midlothian Council
 Moray Council
 North Ayrshire Council
 North Lanarkshire Council
 Northern Constabulary
 Orkney Islands Council
 Perth and Kinross Council
 Renfrewshire Council
 Scottish Borders Council
¹Shetland Islands Council
 South Ayrshire Council
 South Lanarkshire Council
 Stirling Council
 Strathclyde Fire and Rescue Service
 Strathclyde Partnership for Transport
 Strathclyde Police
 Tay Road Bridge Joint Board
 Tayside Fire and Rescue Services
 Tayside Police
 West Dunbartonshire Council
 West Lothian Council
 Western Isles Council

Local government - Wales

Blaenau Gwent County Borough Council
 Brecon Beacons National Park Authority
 Bridgend County Borough Council
 Caerphilly County Borough Council
 Cardiff City and County Council
 Carmarthenshire County Council
 Ceredigion County Council
 Conwy County Borough Council
 Denbighshire County Council
 Dyfed Powys Police Authority

Flintshire County Council
 Gwent Police Authority
 Gwynedd County Council
 Isle of Anglesey County Council
 Merthyr Tydfil County Borough Council
 Mid and West Wales Fire Authority
 Monmouthshire County Council
 Neath Port Talbot County Borough Council
 Newport City Council
 North Wales Fire Authority
 North Wales Police Authority
 Pembrokeshire Coast National Park Authority
 Pembrokeshire County Council
 Powys County Council
 Rhondda Cynon Taff County Borough Council
 Snowdonia National Park Authority
¹South Wales Fire Authority
 South Wales Police Authority
 Swansea City and County Council
 Torfaen County Borough Council
 Vale of Glamorgan County Council
 Wrexham County Borough Council

Financial Public Corporations

Bank of England
 Bank of England Asset Purchase Facility

Public corporations, trading funds and public broadcasting

Audit Commission
 British Broadcasting Corporation
 British Council
 British Nuclear Fuels plc
 British Waterways Board
 Caledonian Maritime Assets Ltd
 Central Office of Information
 Channel Four Television Corporation
 Civil Aviation Authority
 Commonwealth Development Corporation
 Companies House
 David MacBrayne Ltd
 Defence Science and Technology Laboratory
 Defence Support Group
 Driver and Vehicle Agency - Northern Ireland
 Driving Standards Agency
 FCO Services
 Fire Service College
 Forensic Science Service
 Forest Enterprise Agency
 General Lighthouse Fund
 General Teaching Council

Greater Manchester Passenger Transport Executive
¹Horse Race Totalisator Board
 Medicines and Healthcare Products Regulatory Agency
 Meteorological Office
 National Nuclear Laboratory Ltd
 Nexus (Tyne & Wear Passenger Transport Executive)
 NHS Blood and Transplant
 NHS Professionals
²Northern Ireland Housing Executive
 Northern Ireland Transport Holding Company
 Northern Ireland Water Ltd
 OGC Buying Solutions
 Ordnance Survey
 Patent Office
 Registers of Scotland
 Remploy Ltd
 Royal Mail Holdings plc
 Royal Mint
 Scottish Water
 The Office of Communications (Ofcom)
 UK Hydrographic Office
 Vehicle and Operator Services Agency
 Welsh Fourth Channel Authority

Academies

Academy 360
 Accrington Academy
 All Saints CoE Academy, Plymouth
 Appleton Academy
 Arden Academy
 Arthur Mellows Village College
 Ashcroft Technology Academy
 Ashmole Academy
 Audenshaw School
 Aylward Academy
 Bacon's College (a CoE Sponsored Academy)
 Barnfield South Academy
 Barnfield West Academy
 Bede Academy
 Beths Grammar School
 Bexley Grammar School
 Bodmin College
 Bolton St Catherine's Academy
 Bradford Academy
 Branston Community Academy
 Brighton Aldridge Community Academy
 Brinsworth (Comprehensive) School
 Bristol Brunel Academy
 Brompton Academy
 Brooke Weston Academy

Burlington Danes Academy
 Capital City Academy
 Castle View Enterprise Academy
 Chellaston Academy
 City Academy Norwich
 City of London Academy, Islington
 City of London Southwark Academy
 Clacton Coastal Academy
 Cleethorpes Academy (Tollbar Edge)
 Clitheroe Royal Grammar School
 Colchester Academy
 Co-operative Academy at Brownhills
 Cornwallis Academy
 Crest Boys' Academy
 Crest Girls' Academy
 CTC Kinghurst Academy
 Darrick Wood School
 Dartford Grammar School
 Darwen Aldridge Community Academy
 David Young Community Academy
 Denbigh High School
 Dixons Allerton Academy
 Dixons City Academy
 Djanogly City Academy
 Dr Challoner's Grammar School
 Drapers' Academy, Havering
 Droylsden Academy
 Emmanuel CTC
 Erith (Secondary) School
 Essa Academy
 Excelsior Academy
 Fallibroome High School
 Folkestone Academy
 Francis Combe Academy
 Freebrough Academy
 Fulston Manor School
 Fulwood Academy
 Garforth Community College
 Gateway Academy
 George Salter Collegiate Academy
 George Spencer Foundation School and Technology College
 Globe Academy
 Gloucester Academy
 Gosforth Academy
 Grace Academy, Coventry
 Grace Academy, Darlaston
 Grace Academy, Solihull
 Greensward Academy
 Haberdashers' Aske's Hatcham Academy
 Haberdashers' Aske's Knights Academy
 Hampton Academy

Hardenhuish School	Milton Keynes Academy
Harefield Academy	Morley Academy (High School)
Harris Academy Bermondsey	Mossbourne Community Academy
Harris Academy Falconwood	New Charter Academy
Harris Academy Merton	New Line Learning Academy (South Maidstone Federation)
Harris Academy Peckham (The Academy at Peckham)	New Rickstones Academy
Harris Academy Purley	Nightingale Academy
Harris Academy South Norwood	Ninestiles School
Harris City Academy Crystal Palace	North Birmingham Academy
Harris Girls' Academy East Dulwich	North East Wolverhampton Academy
Havelock Academy	North Liverpool Academy
Heartlands Academy	North Oxfordshire Academy
Heckmondwike Grammar School	North Shore Health Academy
Highworth Grammar School	Northampton Academy
Holyrood Community School	Northampton School for Boys
Huish Episcopi Academy	Northumberland CoE Academy
Ivybridge Community College	Norton Hill School (in federation with Somervale School)
John Cabot Academy	Nottingham Academy
John Henry Newman Catholic College	Nuneaton Academy
John Kyrle High School and Sixth Form Centre Academy	Oasis Academy, Hadley
John Madejski Academy	Oasis Academy, Immingham
John Taylor High School	Oasis Academy, Lord's Hill
Kemnal Technology College (part of the Kemnal Trust)	Oasis Academy, Mayfield
Kettering Buccleuch Academy	Oasis Academy, Oldham
Kettering Science Academy	Oasis Academy, Shirley Park
King's Academy	Oasis Academy, Wintringham
Kings Lynn Academy	Oldham Academy North
Kingsbridge Community College	Ormiston Bolingbroke Academy
Kingsdale Foundation School	Ormiston Bushfields Academy
Kingsmead School	Ormiston Sandwell Community Academy
Knole Academy	Ormiston Sir Stanley Matthews Academy
Lambeth Academy	Ormiston Venture Academy
Lampton School	Ormiston Victory Academy
Landau Forte Academy	Outwood Academy Adwick
Landau Forte College	Outwood Grange Academy
Leeds West Academy	Oxford Spires Academy.
Leigh Technology Academy	Paddington Academy
London Academy	Park Hall Academy
Longfield Academy	Parkstone Grammar School
Macmillan Academy	Parkwood Academy
Madeley Academy	Pate's Grammar School
Maltby Academy	Pimlico Academy
Maltings Academy	Priory City of Lincoln Academy
Manchester Academy	Q3 Academy
Manchester Creative and Media Academy for Girls	Queen Elizabeth School (Carnforth)
Manchester Enterprise Academy	Richard Rose Central Academy
Marine Academy, Plymouth	Salford City Academy
Marlowe Academy	Samworth Enterprise Academy
Marsh Academy	Sandbach High School and Sixth Form College
Merchants' Academy Witherwood	Sandwell Academy
Midhurst Rother College	

Sheffield Park Academy
 Sheffield Springs Academy
 Sheffield Community Academy
 Shenley Academy
 Shirebrook Academy
 Shireland Collegiate Academy
 Shoreham Academy
 Sidney Stringer Academy
 Sirius Academy
 Skegness Academy
 Skinners' Academy, Hackney
 South Leeds Academy
 South Wolverhampton and Bilston Academy
 St Anne's Academy
 St George's Academy
 St Mark's CoE Academy
 St Mary Magdalene Academy
 St Matthew Academy
 St Michael and All Angels CoE Academy
 St Paul's Academy
 Stockley Academy
 Stockport Academy
 Strood Academy
 Sutton Academy
 Swindon Academy
 The Academy of St Francis of Assisi
 The Aylesbury Vale Academy
 The Basildon Lower Academy
 The Basildon Upper Academy
 The Bedford Academy
 The Bishop of Rochester Academy
 The Bishop of Winchester Academy
 The Bridge Academy
 The BRIT School Academy for Performing Arts and
 Technology (CCTA)
 The Broxbourne School
 The Bulwell Academy
 The Bushey Academy
 The Business Academy Bexley
 The Canterbury High School (in federation with
 Canterbury Primary)
 The Chadwell Heath Foundation School
 The Charter School
 The City Academy Bristol
 The Compton School (Specialist Technology College)
 The Co-operative Academy of Manchester
 The Corby Business Academy
 The Cotswold School
 The De Ferrers Academy
 The Isle of Sheppey Academy
 The John Wallis CoE Academy
 The King Edward VI Sheldon Heath Academy
 The King's School Peterborough
 The Ockendon Academy
 The Oxford Academy
 The Petchey Academy
 The Priory LSST Academy
 The Priory Ruskin Academy
 The Priory Witham Academy
 The Ridings Federation, Winterborne International
 Academy
 The Rochester Grammar School
 The RSA Academy, Tipton
 The University of Chester CoE Academy
 The Winsford E-ACT Academy
 Thomas Deacon Academy
 Thomas Telford CTC
 Tollbar Academy
 Tonbridge Grammar School
 Torquay Boys' Grammar School
 Trent Valley Academy
 Trinity Academy
 Trinity Academy, Halifax
 Tudor Grange Academy Worcester
 Tudor Grange School
 Twickenham Academy
 Unity City Academy
 University Academy Keighley
 University Academy of Birkenhead.
 Wales High School
 Walsall Academy
 Walthamstow Academy
 Walworth Academy
 Waterhead Academy
 Watford Grammar School for Boys
 Watford Grammar School for Girls
 West Lakes Academy
 West London Academy
 Westminster Academy
 William Hulme's Grammar School
 Wilmington Academy

Annex 2: Entities that are not consolidated in WGA

The accounting policy for the WGA boundary set out in Note 1.3 is based on section 9(1) of the Government Resources and Accounts Act 2000 (GRAA) and the Government Financial Reporting Manual (FRM) which adapts IAS 27 to reflect the requirements of the GRAA. The GRAA requires HM Treasury to consolidate entities that appear to HM Treasury to “exercise functions of a public nature” or to be “substantially funded from public money”. HM Treasury’s decisions apply the GRAA and the FRM, taking into account the national accounts classification of entities to the public sector determined by Office for National Statistics (ONS). This is because the ONS consider the factors listed in the GRAA when making their classification decisions as well as taking account of the degree of control that government has over each entity. As a result the scope of WGA is similar to other fiscal measures, which enables WGA to complement existing data and be a tool to support macro-economic management of the UK’s finances.

WGA entities that did not provide data or provided data of insufficient quality

A few small WGA entities were not consolidated in the 2010-11 WGA because they did not provide data or provided data of insufficient quality. In total, this did not have a material impact on WGA.

No data provided by:

- Dover Christ Church Academy
- Enterprise South Liverpool Academy
- Redhill Academy
- Sarum Academy
- Sir Robert Woodard Academy
- Slough Grammar School
- Taunton Academy
- The Littlehampton Academy
- The Westlands School (in federation with Woodgrove Primary School)
- William Farr CoE Comprehensive School

Insufficient quality data from:

- Wellacre Technology College

Entities that are minor

A number of small entities are not consolidated within the accounts on the basis of materiality. These minor entities are listed in Annex 3.

Academies that received less than £5 million annualised funding or which opened in the last two months of the reporting period were treated as minor bodies and excluded. There were 124 academies which received less than £5 million annualised funding, and their estimated gross expenditure and gross assets, based on average academy value, totalled £0.3 billion and £1.4 billion respectively. There were 59 academies which opened in the last two months of the year ended 31 March 2011, and their estimated gross expenditure and gross assets, based on average academy value, totalled £0.05 billion and £1.0 billion respectively.

Entities that are not responsible to an executive arm of government

There are a few entities that would satisfy the criteria set out in the GRAA and are classified as public sector entities by ONS, but which HM Treasury, consistent with its legislative remit, has decided to exclude from WGA. This is because, whilst they are accountable to their respective Parliaments or assemblies, they are not responsible to an executive arm of the government, and therefore do not form part of “government”. These entities, which are all relatively small in size, are listed below:

- Electoral Commission
- National Audit Office
- Audit Scotland
- Wales Audit Office
- Northern Ireland Audit Office
- Westminster Parliament
- Scottish Parliament
- National Assembly for Wales
- Northern Ireland Assembly
- Parliamentary Ombudsman
- The Crown Estate

Public sector financial institutions

There are a number of financial institutions that would satisfy the criteria set out in the GRAA and are classified as public sector entities by ONS: the Royal Bank of Scotland, Lloyds Banking Group, Northern Rock plc, Northern Rock (Asset Management) plc, and Bradford and Bingley plc. These have not been fully consolidated in these accounts but instead are shown as investments.

Northern Rock (Asset Management) plc and Bradford and Bingley are proposed to be consolidated into WGA from 2013-14, as they are expected to be a permanent part of government until their mortgage books have expired and therefore form a longer-term part of the public sector. The remaining banks will continue to be held as available-for-sale financial assets and liabilities. Their financial assets and liabilities have not been fully consolidated into these accounts, for reasons outlined in Note 35.

The summarised financial statements of all these institutions are disclosed in Note 35.

Other entities

In addition, some entities have been excluded for reasons specific to their circumstances. In these instances, their exclusion is under review and they may be consolidated within WGA in future.

A list of these entities is provided below:

- Academies – academies that are currently excluded as minor bodies as described above will be consolidated from 2011-12
- Financial Reporting Council – will be consolidated from 2011-12
- Financial Services Authority – to be abolished and replaced in 2013 by two new regulatory bodies – the Prudential Regulation Authority, which will be a subsidiary of the Bank of England which is consolidated in WGA, and the Financial Conduct Authority, which is expected to be established early 2013 and consolidated in WGA
- Financial Services Compensation Scheme – will be consolidated from 2011-12
- Further Education Institutions – were being considered for consolidation after being reclassified to the government sector by ONS in October 2010, however following legislative changes they were reclassified back to the private sector by ONS from 2012-13 and therefore no further work to consolidate was carried out
- Higher Education Institutions – classified to the private sector by ONS
- Legacy Trust UK Ltd – small entity specifically created in preparation for the 2012 Olympics, expected to be wound down in 2012
- Local Government Pension Schemes – not separately designated as the net public sector pension liability is included within the accounts of local authorities
- Maintained Schools – not separately designated as net assets are usually included by local authorities
- Municipal Ports – pragmatic exclusion as net assets are immaterial to WGA and the expenditure is reflected in WGA
- NHS Charities – will be consolidated from 2012-13

- London Legacy Development Corporation (formerly Olympic Park Legacy Company Ltd) – will be consolidated from 2011-12
- Parish Councils – pragmatic exclusion as net assets are immaterial to WGA and expenditure reflected in WGA
- Pension Protection Fund – proposed to be included in future, date to be agreed
- Public railway companies (Directly Operated Railways Limited, East Coast Mainline Limited, CTRL Section 1 Finance plc, HS2 Ltd) – will be consolidated from 2011-12
- Trust Ports – includes minor entities and a small number of entities which may be privatised in the near future

Network Rail

HM Treasury, consistent with the legislative WGA framework, has determined that WGA should not include bodies that are not classified to the public sector by the ONS. Of particular note, it does not include Network Rail which is classified to the private sector. Given its close relationship with the public sector, additional information is provided below.

Network Rail Infrastructure Limited (Network Rail) is a private company limited by guarantee and parent company of the Network Rail Group of companies. It owns and operates the main rail network in Great Britain. Its primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on a commercial basis, Network Rail is a not-for-dividend company and all profits made are reinvested in the industry. Its members include the train operating companies and other stakeholders.

The Department for Transport has the lead responsibility for the Government's relationship with Network Rail, and the Secretary of State for Transport is a Special Member but has no rights to any dividend or other distribution.

The Department for Transport's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc by Network Rail, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the Department and Network Rail. The Department considers that the likelihood of Network Rail having to rely upon these letters for financial support is remote. The Department has also provided a financial indemnity in support of Network Rail's Debt Issuance Programme which amounted to £25.1 billion (2009-10: £23.8 billion) at 31 March 2011. The indemnity is available until 2052. It also covers guarantees provided by Network Rail in respect of certain financial obligations.

The summary results of Network Rail for 2010-11 are shown below. Further information on Network Rail is available in its accounts which can be viewed at www.networkrail.co.uk.

Extracts from Network Rail Infrastructure Limited's Accounts for the Year Ended 31 March 2011

	2010-11	Restated 2009-10
	£bn	£bn
Total income	5.7	5.7
Profit before taxation	0.4	0.4
Tax on profit of ordinary activities	(0.1)	(0.1)
Profit for the year	0.3	0.3
Total assets	43.3	42.1
Total liabilities	(35.6)	(35.5)
Net assets and shareholder funds	7.7	6.6

Annex 3: Minor entities excluded from the consolidation

There are a number of entities within the public sector that are relatively small in size. Such entities are deemed minor entities and are considered too small to have any material impact on WGA. In order to be minor, they must satisfy certain tests which are reviewed annually, as described in Note 1.22.1. The entities listed below have not been consolidated into WGA for 2010-11 as they met the minor entity criteria.

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
Alcohol Education and Research Council	773	8	13,062
Appointments Commission	6,061	162	(998)
Architects Registration Board	2,997	456	1,758
Cairngorms National Park Authority	6,029	324	440
Capital for Enterprise Ltd	2,604	197	172
Charity Commission for Northern Ireland	766	6	69
Children's Commissioner for Wales	1,724	62	256
Churches Conservation Trust	5,579	22	1,669
Civil Service Commission	503	-	(55)
Commission for Architecture and the Built Environment	26,675	-	(2758)
Commission for Judicial Appointments	8,220	-	443
Commission for Rural Communities	6,284	7	(475)
Commission for the Compact Ltd	1,652	-	-
Commission for Victims and Survivors for Northern Ireland	1,044	108	113
Commissioner for Children and Young People for Northern Ireland	1,803	257	362
Commissioner for Older People in Wales	1,845	142	696
Committee on Climate Change	4,363	308	(707)
Competition Service	4,197	55	(1,559)
Consumer Council for Water	5,307	103	1,186
Council for Catholic Maintained Schools	2,904	23	(2,913)
Council for Healthcare Regulatory Excellence	2,397	107	466
Covent Garden Market Authority	18,188	7,460	12,400
Creative Skillset (formerly Film Industry Training Board)	12,637	242	2,488
Criminal Cases Review Commission	5,954	225	(5,014)
Criminal Justice Inspection Northern Ireland	1,492	246	250
Design Council	8,705	343	1,819
Economic Research Institute of Northern Ireland	837	-	(32)
Firebuy Limited	2,766	19	(66)
Fleet Air Arm Museum	2,671	10,275	11,366
Football Licensing Authority	1,096	40	249
Gangmasters Licensing Authority	4,688	380	864
General Consumer Council for Northern Ireland	2,612	584	482

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
General Teaching Council for Northern Ireland	1,058	20	1,113
General Teaching Council for Wales	8,154	57	560
Great Britain China Centre	940	14	203
Health and Safety Executive for Northern Ireland	6,341	55	295
High Speed 2	14,609	76	-
Human Fertilisation and Embryology Authority	7,043	136	2,585
Human Tissue Authority	5,337	1,158	3,388
Immigration Services Commissioner	3,932	412	1,070
Independent Housing Ombudsman	3,244	284	457
Infrastructure Planning Commission	6,411	-	(160)
Joint Nature Conservation Committee	10,365	221	584
Labour Relations Agency	3,690	336	91
Leasehold Advisory Service	1,399	81	134
Legal Services Board	4,734	129	6,367
Livestock & Meat Commission	1,725	1,393	3,601
Local Better Regulation Office	3,942	146	499
Local Government Boundary Commission for Wales	701	5	(44)
Local Government Staff Commission for Northern Ireland	427	693	180
Marshall Aid Commemoration Commission	2,072	-	799
Meat Promotion Wales (formerly Welsh Levy Board)	4,589	918	1,850
National Forest Company	3,796	3,019	3,163
National Lottery Commission	5,051	87	292
National Museum of the Royal Navy	2,069	3,701	4,400
North West Regional Waste Management Group	828	-	-
Northern Ireland Construction Industry Training Board	3,337	2,156	5,471
Northern Ireland Events Ltd.	11	-	-
Northern Ireland Guardian ad Litem Agency	3,776	173	230
Northern Ireland Human Rights Commission	1,725	182	59
Northern Ireland Judicial Appointments Commission	1,435	20	42
Northern Ireland Memorial Fund	4,125	39	358
Northern Ireland Museums Council	406	1	202
Northern Ireland Police Fund	21,385	23	(19,428)
Northern Ireland Practice & Education Council for Nursing and Midwifery	1,754	70	(202)
Northern Ireland Social Care Council	3,850	49	42
Office for Fair Access	491	0	55
Office for the Children's Commissioner	2,918	36	(216)
Office of Legal Complaints	12,898	1,866	13,201
Parole Board	13,989	156	707
Passenger Focus	8,688	351	111

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
Patient and Client Council	1,651	11	(123)
Pensions Advisory Service	3,610	198	347
Pensions Ombudsman	2,678	11	76
Police Complaints Commissioner for Scotland	1,075	248	339
Queen Elizabeth II Conference Centre	7,505	2,882	7,924
Registrar of the Public Lending Right	7,376	36	84
Renewable Fuels Agency	1,620	-	143
Risk Management Authority	987	33	100
Royal Marines Museum	1,183	4,842	5,591
Royal Navy Submarine Museum	1,343	4,066	5,547
RUC George Cross Foundation	141	-	66
Scottish Criminal Cases Review Commission	1,046	34	214
Sir John Soane's Museum	2,137	3,441	5,737
Southern Waste Management Partnership	1,477	108	153
Sports Council for Wales National Lottery	9,188	103	7,336
Staff Commission for Education & Library Boards	350	3	(397)
Standards Board for England	5,366	226	(5,673)
Sustainable Development Commission	4,855	5	-
Ufi Charitable Trust	296	-	13,613
UK Anti Doping	7,339	365	524
UK Financial Investments Limited	2,917	142	-
Westminster Foundation for Democracy	5,177	11	138
Youth Council for Northern Ireland	4,182	12	(717)
Amounts excluded from WGA in 2010-11	412,117	57,001	109,114
Amounts excluded from WGA in 2009-10	365,134	92,505	91,656

Academies treated as minor bodies and not consolidated in 2010-11

	Estimated gross expenditure (£000s)	Estimated gross assets (£000s)
123 Academies excluded from WGA in 2010-11 on the basis of receiving less than £5 million annualised funding – *estimated gross expenditure and total gross assets based on average academy value	313,000*	1,500,000*
59 Academies excluded from WGA in 2010-11 as opened in the last two months of the reporting period - *estimated gross expenditure and total gross assets based on average academy value	48,000*	819,000*

Annex 4: List of departures from the 2010-11 Government Financial Reporting Manual

These financial statements are prepared in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2010-11 Government Financial Reporting Manual (FReM). However, in some circumstances departures from the FReM have been made, and these are described below.

Departures in the underlying accounts

General Government Entities (including devolved administrations and the National Health Service)

HM Treasury's Accounts Direction given in accordance with section 5(2) of the GRAA allows for departures from the FReM in exceptional circumstances, where to comply with the FReM would not give a true and fair view. In these instances, any departure is agreed with HM Treasury's Assurance and Financial Reporting Policy Team.

One such instance arises in relation to HM Treasury's investments in financial institutions. In HM Treasury's accounts, financial assets carried at fair value through the Statement of Revenue and Expenditure are initially recognised at fair value, and transaction costs are expensed. Financial assets not carried at fair value through the Statement of Revenue and Expenditure are initially recognised at fair value plus transaction costs. However, the FReM states that Loans, Public Dividend Capital and other interests in public entities outside the departmental boundary should be reported at historical cost, less any impairment. This adaptation in the FReM arose because the vast majority, if not all, of the investments in public corporations and others were those where there was no observable market data. At the time this adaptation was approved, it was not envisaged that the government would take controlling stakes in certain institutions, where there are clear indicators as to market value or viable fair value alternatives. Consequently, consistent with a true and fair view, in these situations certain departments have elected to depart from the FReM adaptation and disclose investments at a fair value where a market value or suitable alternative is available, consistent with IFRS.

The Ministry of Defence has not applied IFRIC 4 '*Determining whether an Arrangement Contains a Lease*' to all of its contracts. It is believed that a limited number of significant, largely single source contracts, particularly strategic procurement arrangements with key contractors, would meet the IFRIC 4 definition of containing a lease if they were reviewed against IFRIC 4; and that some of these leases would meet the definition of a finance lease per IAS 17 '*Leases*'. The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Consequently, the Comptroller & Auditor-General qualified his opinion on the 2010-11 accounts of the Ministry of Defence on the basis that a material value of assets and liabilities was omitted from its Statement of Financial Position. Further information is available in the Ministry of Defence's 2010-11 Annual Report and Accounts.

Inconsistencies in accounting frameworks that led to departures in the FReM

Local Government Entities

Local authority accounting complies with the Code of Practice on Local Authority Accounting in the UK developed by the CIPFA / LASAAC Board. The Local Authority Code (LA Code) is based on international accounting standards.

The most significant difference between the FReM and the LA Code arises from the accounting treatment of highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical cost basis compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation of these assets on a depreciated replacement cost basis for inclusion in the 2012-13 Whole of Government Accounts. The best proxy available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2010 National Accounts

estimated the value of the road network at £260 billion (2009-10: £248 billion) as at 31 December 2010. Infrastructure assets are likely to be understated by at least £200 billion.

Local authorities value the bulk of housing stock within the Housing Revenue Account under the valuation method 'Existing Use Value for Social Housing', which is defined by the Royal Institution of Chartered Surveyors Valuation Standards 6th Edition. This is in accordance with current CIPFA and HM Treasury guidance. However, this method of valuation is not recognised under IFRS and is a departure from IFRS and FReM.

Under the disclosure requirements in the 2010-11 LA Code, local authorities do not provide the same level of disclosure as required by the FReM. This impacts this account in the following way:

- Local authorities are not required to separately disclose vehicles. As a result, 'plant and machinery' in Note 14 include vehicles held by local authorities.
- Local authorities under the LA Code are not required to separately identify provision expense in their Statement of Revenue and Expenditure. This gives rise to a difference between the provision expense shown separately in the WGA Statement of Revenue and Expenditure and the movement in provisions shown in the Statement of Financial Position.

Public Corporations

Except where specific powers are defined in statute, public corporations are subject to all the discipline of corporate legislation including conforming to the financial reporting requirements of the Companies Act, and not the FReM.

Scottish Water values its infrastructure assets at historical cost in its accounts, rather than replacement cost per the FReM. An adjustment has been made of £35 billion (2009-10: £34 billion) to reflect the replacement cost in these accounts. Scottish Water also states these at net book value as reported in its accounts. Accordingly, the gross book values in these accounts include the net book value of these assets and depreciation is not separately disclosed.

Specific WGA departures from the FReM

PFI disclosures

A number of WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these contracts in their accounts in different ways in 2010-11, as the accounting standards allow flexibility as to how to present the information. Therefore it is not possible to provide a summary of all these PFI contracts in this account. Included in Note 30 is a list of the significant PFI contracts that have been reported.

Level of disclosures

On certain matters, the level of disclosure reported by individual entities in their accounts varies, which has impacted on the level of disclosures able to be reported in these accounts. For example, the FReM requires staff costs to be split between Permanently Employed, Others, Ministers and Special Advisors, however because of the varying level of disclosures in the underlying accounts of WGA entities, a consistent and reliable breakdown is not possible at the WGA level. In these instances, the level of disclosure still provides users of the accounts with sufficient information to understand the state of the Whole of Government Accounts.

On certain matters, the detailed level of disclosure required by financial reporting standards is not appropriate for WGA, as it would create an unwieldy document including details from 1,500 entities that would not serve the purpose of the Whole of Government Accounts. In such cases detailed disclosures are omitted but are available in the individual accounts of the consolidated entities. This affects the following items:

Disclosure	Information omitted
Donated assets	Details of restrictions where a donor imposes restrictions on the use of donated assets.
Heritage assets	Information on the age and scale of assets, how they were acquired and what use is made of them.
Valuation of assets	Detailed disclosures regarding valuations including the following: name and qualification of the value or valuer's organisation and a description of its nature, date and amounts of valuations, if a valuation is performed by an employee or officer of the entity, and certain detailed disclosures regarding impairments required under IAS 38.
Investment property revaluation reserve	Investment property revaluation reserve to be shown separately from any other revaluation reserve.
Secured payables	Details of secured payables and the nature of security given.
Long term contracts	Payments on account of long term contracts separately disclosed in receivables and payables.
Managing capital	Qualitative and quantitative information about objectives, policies and procedures for managing capital.

Annex 5: Proposals for 2011-12 and beyond

These financial statements include substantially all entities in the public sector and have been prepared using IFRS where this is available. There are a number of improvements planned for the future that will improve the completeness and consistency of the data within the statements. The key developments are as follows:

- | | |
|-----------------------|---|
| 2011-12 | <ul style="list-style-type: none">• Start of the implementation of the Clear Line of Sight project to align the Government's budgets, estimates and accounts;• Complete plans for the consolidation of Northern Rock (Asset Management) plc and Bradford & Bingley, on the assumption that they will remain in the public sector until their existing mortgage books have expired; and• Review the status of all other entities not included in WGA as set out in Annex 2 to consider their inclusion in WGA, and put plans in place to consolidate as appropriate. |
| 2012-13-
2013-14 | <ul style="list-style-type: none">• Adopt depreciated replacement cost for the valuation of highways infrastructure assets by local authorities;• Consolidate Northern Rock (Asset Management) plc and Bradford & Bingley;• Amend the FReM to eliminate inconsistencies;• Replacement of HM Treasury's consolidation tool; and• Plan for accelerating completion of the account. |
| 2014-15 and
beyond | <ul style="list-style-type: none">• Examine segmental reporting of data to identify improvements to the analysis of revenues, expenditure, assets and liabilities; and• Review WGA to assess how it is meeting its objectives. |

Consolidation tools and process

HM Treasury uses the Combined Online Information System (COINS) to effect the consolidation of WGA. It is currently replacing COINS with a new consolidation tool which is planned to be available for the 2012-13 account preparation process. This is expected to deliver improvements in the efficiency and effectiveness of the consolidation process. In addition, we will keep data collection and consolidation processes under review, with a view to delivering continuous improvements that enable WGA to be produced more quickly with the minimum of effort.

Amendments to the FReM

The process of producing WGA does identify that there are in places a number of interpretations of the FReM that have led to differing disclosures in the underlying accounts. We continue to examine whether these can be reduced or eliminated without compromising the true and fair view of the underlying accounts.

Highways infrastructure asset proposals for local authorities

In 2006 the Department for Communities and Local Government and HM Treasury jointly commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to examine the management and accounting arrangements for local authority highway assets. CIPFA's report (CIPFA (2008), Local Authority Transport Infrastructure Assets: Review of Accounting, Management and Finance Mechanisms – Final Report, published in June 2008 and available from its website (www.cipfa.org.uk),

recommended that local authorities adopt an asset-management approach to maintaining their highways assets, which offers significant benefits in terms of efficiency, and also, in line with the central government sector, move to a depreciated replacement cost basis for valuing its highways assets.

The Government has accepted the report's recommendations and has asked CIPFA to prepare guidance to support the accountancy changes. The intention is that local authorities will first provide information to HM Treasury on depreciated replacement cost values in 2012-13.

Clear Line of Sight

The Clear Line of Sight (CLOS) project aims to align the Government's budgets, estimates and accounts. It will be implemented by English and Welsh departments in 2011-12, or 2012-13 in respect of academies. Northern Ireland departments will align for 2013-14, and the devolved administration in Scotland does not have the necessary statutory powers to amend their accounting. Under CLOS, departments will consolidate more entities than they have previously, resulting in more entities being consolidated in WGA that may have previously been exempted from consolidation as minor bodies.

Annex 6: Glossary

Accruals basis

A method of recording transactions to relate them to the period when the consumption of the goods, services or financial asset took place, or when the income is earned. For example, value added tax accrues when the expenditure to which it relates takes place, but HM Revenue and Customs receive the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation or the actuarial assumptions have changed.

Assets

Anything of positive economic value that can be owned or controlled.

Asset Protection Scheme

Scheme created in January 2009 to provide certainty and confidence to banks in their lending, when the Government offered capital and asset protection on assets most affected by the current economic conditions.

Asset Purchase Facility

Facility created in January 2009 to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK, and for monetary policy purposes.

Bank of England (BoE)

The Bank of England is the central bank of the United Kingdom. It is independent of the Government and has two core purposes: monetary stability and financial stability. Since 1997 the Bank has had statutory responsibility for setting the UK's official interest rate.

Balance sheet

Also known as the Statement of Financial Position. A statement, drawn up at a particular point in time, showing the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

Bond

A certificate of debt issued by a government or corporation in order to raise money - a bond is essentially an IOU. A bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. In the UK, government bonds are called 'gilts'.

Capital expenditure

Money spent on building, purchasing or upgrading physical assets (i.e. infrastructure, buildings, machinery etc.), for the purpose of creating future benefits.

Cash basis

The recording of transactions when cash or cash equivalents are paid out or received, rather than on an accruals basis.

Cash equivalents

Short-term, highly liquid bank deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Clear Line of Sight (CLOs)

A Government driven project to simplify central government financial reporting to Parliament by reporting in a more consistent way, in line with the fiscal rules. Also refer to: http://www.hm-treasury.gov.uk/psr_clear_line_of_sight_intro.htm

Consolidated Fund

The Government's "current account", operated by the Treasury, through which pass most central government payments and receipts.

Consumer Prices Index (CPI)

A measure of inflation. The CPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The CPI is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target.

Corporation tax

A tax on the profits made by companies.

Deficit

The amount by which government spending exceeds government income during a specified period of time (usually a year).

Defined Benefit Scheme

A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined Contribution Scheme

A pension or other retirement benefit scheme into which the employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the

scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives

Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (for example a government bond or a bank deposit), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

Designation Order

The statutory instrument which lists the entities which are to be consolidated within WGA and must provide WGA data to HM Treasury.

Equity

Equity is ownership or potential ownership of a company, as evidenced by the ownership of ordinary shares. They differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are merely outside creditors.

Exchange Rate

The rate at which one currency can be exchanged for another.

Exchange Equalisation Account (EEA)

An account of central government held by the Bank of England in which transactions in the official reserves are recorded. It is the means by which the government, through the Bank of England, influences exchange rates.

Expected Rate of Return on Pensions Assets

For a funded, defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets of the scheme.

Finance Bill

The annual Finance Bill puts into law the measures announced in the Budget. Its formal description is 'a Bill to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, to make further provision in connection with finance.'

Financial leasing

A form of leasing in which the lessee contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the assets to the lessee, financed by an imputed loan. The leasing

payments are split into interest payments and repayments of principal.

Fiscal policy

The use of government spending and tax policy to affect changes in the economy.

FReM

The 2010-11 Government Financial Reporting Manual which applies EU adopted International Financial Reporting Standards as adapted or interpreted for the public sector context.

General reserve

The main reserves account to which all revenue transactions are credited and from which revenue liabilities are discharged.

Gilts

Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

GRAA

Government Resources and Accounts Act 2000 which requires HM Treasury to prepare the Whole of Government Accounts.

Grants

Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

Gross Domestic Product (GDP)

GDP is a measure of economic activity. It is the sum of all goods and services produced by a country over a given time period (usually a year). A rise in GDP shows the economy is growing, whilst falling GDP means the economy is contracting. GDP can be measured in three ways:

- i) Income (the value of the income generated mostly in terms of profits and wages);
- ii) Output (the value of the goods and services produced); and
- iii) Expenditure (the value of the goods and services purchased).

Hedge

A hedge is an asset or derivative used to offset the risk in another asset held or liability.

Housing Revenue Account (HRA)

A separate account recorded by local authorities which is required by statute for recording income and expenditure on the provision of council housing. The rental and other HRA income pays for repairs, managing and maintaining the housing stock and repaying any money borrowed for past building and improvements. The HRA is ring fenced

and can only be used to fund expenditure on Council Housing.

Income Tax

A tax on personal income, i.e. wages or salary. The level of Income Tax an individual pays depends on their level of income – higher earners pay higher rates of Income Tax. However, nearly everyone who lives in the UK is entitled to an Income Tax Personal Allowance. This sets the amount of income you can receive each tax year without having to pay tax on it.

Index-linked gilts

Gilts whose coupon and redemption value are linked to movements in the retail prices index.

Inflation

A rise in the general price level of goods and services. Often measured over a 12 month period.

Intangible assets

An intangible fixed asset is an identifiable non-monetary asset that doesn't have physical substance. Intangible fixed assets include mineral exploration, computer software and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced intangible assets such as patented entities, leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

Interest rate

A cost that is charged by a person or organisation that lends money to another. Usually expressed as a percentage.

International Monetary Fund (IMF)

The fund was set up in 1947 to supervise the fixed exchange rate system and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries' subscriptions according to agreed quotas. It currently has about 180 member countries including most of the major countries of the world.

IMF quota subscription

A member's International Monetary Fund (IMF) quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund.

Inventories

Inventories consist of finished goods (held by the producer prior to sale, further processing or other use) and products (for example, materials and fuel) acquired from other

producers to be used for intermediate consumption or resold without further processing.

Liability

A claim on one entity by another which gives rise to a payment or other transaction transferring assets to the other entity. Conditional liabilities, that is where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

Liquidity

The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

Machinery of Government (MOG) change

Transfer of functions from one part of the public sector to another in the UK.

Managing Public Money

A HM Treasury document for departments in central government that sets out the main principles for dealing with resources used by public sector organisations in the UK. It is publicly available on the HM Treasury website.

Monetary policy

The regulation of money supply and interest rates by a central bank, such as the Bank of England, to achieve economic objectives.

National Insurance contributions (NICs)

National Insurance is a government-operated social security scheme. It is funded by compulsory contributions by employers, employees and the self-employed. Contributions increase according to the level of earnings (or profit, in the case of the self-employed).

NICs pay for contributory benefits, including the State Pension. A proportion of NICs are also used to help fund the National Health Service. Individuals stop paying NICs when they reach State Pension age or are no longer working. Various National Insurance credits are available to maintain entitlements where an individual is not able to work and there is also an option to pay voluntary contributions where credits are not available

National Loans Fund

An account of HM Government set up under the National Loans Fund Act (1968) which handles all government borrowing and most domestic lending transactions.

Non-current assets

Assets that are themselves used repeatedly or continuously for more than one year. They include buildings and other structures, vehicles and other plant and machinery and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy

cattle. They also include intangible assets such as computer software and artistic originals.

Non-departmental public body (NDPB)

A body which has a role in the processes of national Government, but is not a Government Department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from Ministers.

Operating leasing

The conventional form of leasing, in which the lessee makes use of the leased asset for a period in return for a rental while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor, and the intermediate consumption of the lessee. See also Financial leasing.

Parliament

Parliament examines what the Government is doing, makes new laws and debates the issues of the day. The business of Parliament takes place in two Houses: the House of Commons and the House of Lords. Both Houses hold debates in which Members discuss government policy, current issues, and debate and pass legislation.

Pension funds

The institutions that administer pension schemes. Pension schemes are significant investors in securities.

Pension Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Preference share

This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference share holders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However in the UK they usually do not, and are therefore classified as bonds.

Private Finance Initiative (PFI)

Private Finance Initiative (PFI) projects are schemes involving the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk to the private sector, including the design, construction, maintenance and operation of the asset. In return, the Government pays an annual charge over the lifetime of the contract, which is typically 25-30 years.

Private sector

The part of a nation's economy which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state.

Privatisation

The process of transferring a government-owned asset such as a company or property to the private sector.

Public corporations

These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A public corporation is publicly controlled to the extent that the public authority, that is central or local government, usually appoints the whole or a majority of the board of management.

Public finances

The government's accounts, including tax receipts, expenditure, borrowing and debt.

Public sector

The part of the nation's economy that is classified to the public sector by the Office for National Statistics.

Public sector net debt

The total amount of money owed by the public sector as measured by the Office for National Statistics.

Recession

The commonly accepted definition of a recession in the UK is two or more consecutive quarters (a period of three months) of contraction in national GDP.

Reserves

Reserves are created to finance expenditure occurring in future years. They include general reserve working balances, reserves for financing capital expenditure, and "earmarked" reserves for specific projects.

Retail Prices Index (RPI)

The RPI is a measure of inflation. The RPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The RPI is similar in nature to the Consumer Prices Index (CPI) however there are differences in calculation and in the basket of goods covered. In particular the RPI includes mortgage interest payments and housing depreciation whereas CPI does not.

Reverse sales and repurchase agreement (reverse repo)

Where an entity purchases securities and agrees to sell them back at a specified time and price. Securities pledged by an entity as collateral via reverse repos remain on its own statement of financial position.

Sale and repurchase agreements (repo)

Where an entity sells securities and agrees to repurchase them at a fixed price at a future date: essentially, a form of secured borrowing. Securities that are pledged by the entity as collateral via sales and repurchase agreements remain on its statement of financial position.

Sector

In the economic accounts the economy is split into different institutional sectors according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, households and non-profit institutions serving households (NPISH). See also private sector and public sector.

Special Drawing Rights (SDRs)

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged by IMF members for freely usable currencies. IMF members can buy SDRs to discharge obligations to the IMF, and can sell SDRs in order to adjust the composition of their reserves. SDRs are also the IMF's unit of account.

Special Liquidity Scheme

Scheme created in 2008 to encourage banks to lend to each other, by allowing banks to temporarily swap high quality securities (including mortgage-backed) for Treasury bills.

Spending Review

Spending Reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending.

Subsidies

Current unrequited payments made by general government or the European Union to entities.

Taxes

Compulsory unrequited transfers to central or local government or the European Union.

Third Party Assets

Assets held by the government, through various public entities, as custodian or trustee, but which belong to third parties, for example Funds in Court or money held on behalf of others.

Treasury (The)

HM Treasury is the United Kingdom's economics and finance ministry. It is the Government department responsible for formulating and implementing the Government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

Treasury bills

Short-term securities or promissory notes which are issued by government in return for funding from the money market. In the United Kingdom every week the Bank of

England invites tenders for sterling Treasury bills from the financial institutions operating in the market. EU-denominated bills are issued by tender each month. Treasury bills are an important form of short-term borrowing for the government, generally being issued for periods of 3 or 6 months.

United Kingdom

Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

Value Added Tax (VAT)

VAT is a tax that is charged on goods or services. It is levied at each stage in the chain of production and distribution. However, smaller businesses do not have to register for VAT and when VAT-registered businesses buy goods or services they can generally reclaim the VAT that they have paid on them. Therefore VAT principally affects consumers. This is with the exception of certain goods that are taxed at 0%, including food, books, newspapers and children's shoes and clothes.

Value at Risk (VaR)

This measures the aggregate market risk on a portfolio. VaR is an estimate of the maximum potential loss in the value of a portfolio.

WGA boundary

Boundary separating entities included in creating Whole of Government accounts and those excluded.

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