

Return to an Order of the Honourable, the House of Commons, dated 10 July 2012, for

Account of the Contingencies Fund, 2011-2012, showing (1) a Statement of Financial Position, (2) a Statement of Cash Flows and (3) Notes to the Accounts; together with the Certificate and Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper No 1291 of 2010-2012)

Contingencies Fund Account 2011-2012

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Contingencies Fund Account 2011-2012

Treasury Chambers
10 July 2012

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Mark Hoban

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 10 JULY 2012

The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Amyas Morse,
is an Officer of the House of Commons.
He is the head of the NAO, which employs some 880 staff.
He and the NAO are totally independent of government.

He certifies the accounts of all government departments
and a wide range of other public sector bodies;
and he has statutory authority to report to Parliament
on the economy, efficiency and effectiveness with which departments
and other bodies have used their resources.

Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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ISBN: 9780102970685

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Foreword

Scope of the Accounts

The Contingencies Fund is used to finance payments for urgent services in anticipation of Parliamentary provision for those services becoming available, and to provide funds required temporarily by government departments for necessary working balances, or to meet other temporary cash deficiencies.

HM Treasury (the Treasury) controls access to the Contingencies Fund to ensure that issues are appropriate and consistent with the requirements set out in *Managing Public Money* and *Supply Estimates: a guidance manual*. All advances from the Contingencies Fund must be repaid. In the case of advances in support of voted expenditure, Parliamentary authority is needed to enable sums advanced to departments to be repaid to the Contingencies Fund. Wherever possible and required, Parliament is made aware of the intention to use the Contingencies Fund and incur associated resources through a written Ministerial Statement made in advance of any issues being made. During periods of recess, when an advance has to be made that requires a Written Ministerial Statement, Parliament is informed of the advance as soon as possible after the House returns.

Where practical, sums due to the Contingencies Fund are recovered within the same financial year. Generally, repayments of advances for voted services are provided for either in Supplementary Estimates of the same year, or, if this is not possible, in the Estimates of the following year. No interest is payable by departments on advances made from the Contingencies Fund.

Advances in 2011-12

In 2011-12, the Contingencies Fund advanced £2.6 billion to government departments (2010-11: £36.6 million). The allocation of advances is detailed in Note 5 to the account. All advances have been repaid in the year.

£2.2 billion of the increase was due to 2011-12 advances that were made to the Department for Environment, Food and Rural Affairs (Defra). The advances to Defra were in respect of Common Agricultural Policy (CAP) scheme payments to the Rural Payments Agency. Similar advances to Defra are expected to be made on an annual basis for the duration of the current CAP scheme.

£340.0 million of the increase was due to an advance made to the Armed Forces Pension Scheme, which exhausted its supply provision before new cash from the Supplementary Estimate for 2011-12 became available. The advance was repayable against the Supplementary Estimate.

£77.3 million of the increase was due to advances made to the Department for Work and Pensions (DWP) in respect of the Welfare Reform Act. The advances were used by DWP for preparatory information technology work for the new Universal Credit system.

None of these departments received advances during 2010-11.

In 2010-11, the Government Actuary's Department and the National School of Government received advances of £2.4 million and £3.0 million respectively. Neither body received an advance in 2011-12.

The Capital of the Contingencies Fund

The permanent capital of the Contingencies Fund was increased to £1,500,000 by section 52 of the Finance Act 1921. Section 3 of the Miscellaneous Financial Provisions Act 1946, as amended by the Contingencies Fund Act 1974, provides that the capital of the Contingencies Fund, including the permanent capital, may be increased as necessary up to an amount equal to 2 per cent of the authorised supply expenditure for the year ending on the previous 31 March. Authorised supply expenditure is defined as the total of the sums which Acts passed before the end of the year have authorised the Treasury to issue out of the Consolidated Fund for supply services for that year.

The total cash supply expenditure authorised for 2010-11 was £488,865,599,000 (2009-10; £518,147,119,000) and accordingly the maximum capital, excluding the permanent capital, available to the Contingencies Fund at any one time in 2011-12 was £9,775,811,980 (2010-11; £10,361,442,380).

The claims on the Contingencies Fund are monitored daily and kept regularly under review by the Exchequer Funds and Accounts Team in the Treasury to ensure that issues are within the statutory limit for the capital of the Contingencies Fund. No interest is payable on capital issued to the Contingencies Fund from the Consolidated Fund.

Accounts and Audit

Under the Treasury Minute of 13 May 1862 the Treasury is required to prepare accounts for each financial year in such form as it may direct. In accordance with the Direction issued on 6 January 2012, the Contingencies Fund's accounts for 2011-12 have been prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM), with the exception of the Statement of Cash Flows, which shows only receipts and payments. As the Contingencies Fund does not receive any income, nor does it incur any expenditure, no Operating Cost Statement is presented as part of the accounts.

Under the Treasury Minute of 13 May 1862 the accounts are audited by the Comptroller and Auditor General (C&AG).

As the Accounting Officer, 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 Contingencies Fund's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the Contingencies Fund's auditors are unaware.

Sharon White
Accounting Officer
HM Treasury

16 May 2012

Statement of Accounting Officer's responsibilities

Under the Treasury Minute of 13 May 1862 the Treasury is required to prepare accounts for each financial year in the form prescribed by the department. In accordance with the Direction issued on 6 January 2012, the accounts of the Contingencies Fund are to be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FRM), except for the Statement of Cash Flows, which shall show only receipts and payments, and must give a true and fair view of the state of affairs of the Contingencies Fund and of its cash flows for the financial year.

The Accounting Officer of the Contingencies Fund has overall responsibility for the operation of the Contingencies Fund, for preparing the annual accounts and for transmitting them to the Comptroller and Auditor General for audit. Andrew Hudson, Director General, Public Services was the Accounting Officer of the Contingencies Fund until 31 December 2011. Sharon White, Director General, Public Spending was appointed as Accounting Officer of the Fund on 1 January 2012.

In preparing the accounts the Accounting Officer is required to observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which she is answerable, and for the keeping of proper records, are set out in Chapter 3 of *Managing Public Money*.

Governance Statement

1 Governance Framework

1.1 The Contingencies Fund is managed within the Treasury's governance framework as set out in the Treasury's Annual Report and Accounts 2011-12. This includes the Treasury Board's assessment of its compliance with the 'Corporate Governance Code'.

1.2 The Chancellor of the Exchequer, as Minister in charge of the Treasury, is responsible and answerable to Parliament on all the policies, decisions and actions of the Treasury, and ultimately of the Contingencies Fund.

1.3 As Accounting Officer for the Contingencies Fund, I am personally responsible and accountable to Parliament for the organisation and quality of management of the Contingencies Fund, including its use of public money and the stewardship of its assets, in line with those responsibilities assigned to me in *Managing Public Money*.

a Audit Committee

1.4 The Treasury Audit Committee is a committee of the Treasury Board (sub-committee), and is tasked with supporting the Permanent Secretary, as Principal Accounting Officer, and the Treasury's Additional and other Accounting Officers in their responsibilities for managing risk, internal control and governance related to the:

- Treasury Group's Annual Report and Accounts;
- Consolidated Fund;
- Contingencies Fund;
- National Loans Fund; and,
- Exchange Equalisation Account.

1.5 The Permanent Secretary appoints members of the Committee for periods up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary and is invited to report concerns or issues to the Treasury Board (sub-committee). The membership of the Audit Committee at the close of 2011-12 was:

- Michael O'Higgins (Chair) - Chairman of the Audit Commission; Chairman of the Pensions Regulator; Chairman, Investec Structured Products Calculus VCT plc;
- Mike Ashley – Head of Quality and Risk Management, KPMG Europe LLP; Board Member, KPMG Europe LLP;
- Janet Baker – Crown Commercial Lead, Better Business Models, Cabinet Office; Board Member and Audit Committee Member, Audit Commission; Non Executive Director, Remuneration Committee Chair and Audit Committee Member, Defence Support Group, MoD; Non Board Member and Audit Committee Member, Rural Payments Agency; and
- Bradley Fried – Managing Partner, Grovepoint Capital LLP, Non Executive Director of the Group Board, Investec plc; Non Executive Director and Audit Committee Chair, Investec Wealth and Investment Limited.

1.6 During 2011-12, two members, Zenna Atkins and Avinash Persaud, stepped down from the Audit Committee.

1.7 The Treasury Audit Committee has a robust Conflicts of Interest Policy, which requires members to excuse themselves from discussions where potential conflicts may occur. Members are required to inform the Permanent Secretary about any potential conflicts and highlight these at the start of each meeting as appropriate.

1.8 In addition to the independent members, the appropriate Accounting Officers, HM Treasury's Group Director of Finance, the Chief Executives of the Debt Management Office and the Asset Protection Agency, and the Treasury Accountant also attend Committee meetings as required. Members have the opportunity for a pre-committee discussion with the National Audit Office, Group Head of Internal Audit for HM Treasury and Head of Internal Audit for the Exchequer Funds.

1.9 The Treasury Audit Committee met four times during 2011-12.

1.10 The external auditor is the Comptroller and Auditor General and the National Audit Office (NAO) attend all Audit Committee meetings on his behalf.

1.11 The Treasury Audit Committee receives all NAO and Exchequer Funds Internal Audit Reports relating to the Contingencies Fund.

b Exchequer Funds Internal Audit

1.12 Internal Audit for the Contingencies Fund is provided by Exchequer Funds Internal Audit (EFIA). EFIA reports directly to the Accounting Officer and the Audit Committee on audit reporting matters.

c Management of the Contingencies Fund

1.13 The Estimates Clerk, with authority delegated by me, or staff with authority delegated by the Estimates Clerk in the Treasury's Financial Management and Reporting (FMR) Group authorise most advances from the Contingencies Fund. I approve advances considered to be novel or contentious. The Treasury's Exchequer Funds and Accounts (EFA) Team administers the account.

1.14 Detailed guidance on the purpose of and procedures relating to the Contingencies Fund, including advice on processes when dealing with the Contingencies Fund, is set out in *Managing Public Money* and *Supply Estimates: a guidance manual*.

1.15 Once an advance has been made it is the responsibility of the receiving department to ensure that the cash is used only for the purpose(s) for which it was advanced and to make repayment at the earliest opportunity (though the Treasury will follow up outstanding repayments as necessary).

d Reporting to the Treasury's Boards

1.16 The Economic, Fiscal and Operational Risk Groups, each chaired by a member of the Executive Management Board (EMB), meet every six weeks. The Risk Groups give evidence to the Ministerial Board and its sub-committee. EFA's risks are regularly reported to the Operational Risk Group.

1.17 EFA feeds into the Treasury's quarterly internal Performance Reporting which is produced for the Ministerial Board and its sub-committee.

1.18 As mentioned previously, the Chair of the Audit Committee is invited to report concerns or issues to the Treasury Board (sub-committee) and is a member of the Ministerial Board.

2 Risk management

2.1 Risk management is key to all Contingencies Fund processes, including business continuity resilience planning for public funds. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and to identify appropriate mitigating actions. Significant risk issues are recorded in a risk register and are assessed by likelihood and impact. A risk owner, who is responsible for managing the risk, is assigned to each risk. The risk register is regularly reviewed by EFA management.

2.2 There are sufficient experienced staff in both the EFA team and the FMR Group with an appropriate range and breadth of knowledge to manage the Contingencies Fund, covering absences as necessary. Key operational staff with responsibilities relating to the Contingencies Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk awareness and management is provided as required, either by management or by attending appropriate courses. Individuals' objectives reflect the need to manage risks. Training is also provided to staff to build the team's capability and to increase its resilience. EFA team members are encouraged to obtain professional qualifications in areas that are relevant to their roles.

2.3 During the year, there were no significant changes to the control environment.

3 The system of internal control

3.1 As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the Fund's policies, aims and objectives, whilst safeguarding the public funds and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

3.2 The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Contingencies Fund's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

3.3 The system of internal control has been in place throughout the year ended 31 March 2012 and up to the date of approval of the financial statements, and accords with Treasury guidance.

4 Risk profile

4.1 The Contingencies Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resourcing the administration of the Contingencies Fund, security and the management of risks across the Treasury's business.

4.2 The key risks in managing the Contingencies Fund and their associated controls are:

- **Breach of the Contingencies Fund capital limit (imposed by statute and set at 2 per cent of the previous year's approved cash supply):** Before a payment is made from the Contingencies Fund, EFA review the outstanding advances and ensure that the capital limit will not be breached.
- **Irregularity of transactions, including fraudulent or erroneous payments:** Clear separation of duties is enforced by different teams within the Treasury carrying out the authorisation, approval and payment of Contingencies Fund advances. A robust payment authorisation process is in place, with appropriate user permissions within the banking system. Prior to the authorisation of payments, the destination and purpose of the advance, and any changes thereto, are double-checked. Up-to-date policy and procedures manuals, including job instructions, are maintained to ensure that key operational staff with responsibilities relating to the Contingencies Fund carry out their responsibilities in a controlled manner. In addition, there is an established process for consideration of requests for use of the Contingencies Fund, whereby departments seeking advances from the Contingencies Fund are required to comply with procedures set out in *Managing Public Money* and *Supply Estimates: a guidance manual*.
- **Incorrect accounting:** All entries into the accounting system are entered and then approved by a separate team member. Bank reconciliations are carried out to ensure that all advances and repayments have been recorded in the accounting system. Also, a monthly report on the activity of the Contingencies Fund is produced. This is reviewed by the Treasury Accountant, and is provided to me.
- **Failure of IT systems:** The Fujitsu data centre offers the highest level of resilience available as prescribed by Telecommunications Industry Standard TIA-942 with availability set to 99.995 per cent. A disaster recovery site is also provided our outsourced information technology provider. EFA also has its own contingency plans in place.
- **Failure to provide an effective service in adverse circumstances, including disasters:** To ensure operational resilience in key areas in the event of a business continuity problem, staff within EFA and the FMR Group are trained to provide cover for times when other staff members are absent. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan. The Contingencies Fund's operations were not affected by public sector strike action during the year.

- **Failure of principal counterparties to provide agreed services:** Well-developed Service Level Agreements for the provision of services from principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe. A monthly meeting is held with Government Banking Service management where service levels are discussed.
- **Information risk:** Data and information risk are managed in accordance with HMT's policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption, and physical and IT security. HMT adheres to Cabinet Office guidelines available at www.cabinetoffice.gov.uk/resource-library/security-policy-framework. Further guidance on information security and assurance is available to all HMT staff on the intranet. EFA's own Data Handling Policy identifies risks specific to EFA. This policy is reviewed on a six-monthly basis or as required.

5 Review of effectiveness

5.1 In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of Exchequer Funds Internal Audit who provided positive assurance as to the management and control of the Contingencies Fund in 2011-12, and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Audit Committee, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Treasury Audit Committee considered the 2011-12 accounts in draft and provided me with its views before I formally signed the accounts.

5.2 No significant internal control issues, including data related incidents, have been identified in 2011-12, and no significant new risks have been identified in the year. No ministerial directions have been given in 2011-12.

5.3 In my opinion, the system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

Sharon White
Accounting Officer
HM Treasury

16 May 2012

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

I certify that I have audited the financial statements of the Contingencies Fund for the year ended 31 March 2012 under the Treasury Minute dated 13 May 1862. These comprise the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Treasury Minute dated 13 May 1862. 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 Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword, Statement of Accounting Officer's responsibilities and Governance Statement 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.

I am required to obtain evidence sufficient to give reasonable assurance that the financial transactions recorded in the financial statements have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the financial transactions recorded in the financial statements have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2012 and of the cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

18 May 2012

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

Statement of Financial Position as at 31 March 2012

	Note	31 March 2012 £m	31 March 2011 £m
Assets			
Current assets			
Cash and cash equivalents	3	<u>1.5</u>	<u>1.5</u>
Total assets		<u>1.5</u>	<u>1.5</u>
Liabilities			
Sums repayable to the Consolidated Fund			
Non-current liabilities	4	<u>1.5</u>	<u>1.5</u>
Total liabilities		<u>1.5</u>	<u>1.5</u>

The Contingencies Fund does not receive any income, nor does it incur any expenditure. Accordingly, no Statement of Comprehensive Net Expenditure is presented. There were no other gains or losses in the year (2010-11: none).

The notes on pages 13-16 form part of these accounts.

Sharon White
Accounting Officer
HM Treasury

16 May 2012

Statement of Cash Flows

	Note	£m	2011-12 £m	2010-11 £m
Receipts				
Issues from the Consolidated Fund			3,000.0	1,000.0
<i>Advances recovered from</i>				
Sundry Estimates voted by Parliament	5.1	2,598.5		36.7
Revenue Departments	5.2	15.8		0.0
			2,614.3	36.7
Total receipts			5,614.3	1,036.7
Payments				
Repayments to the Consolidated Fund			(3,000.0)	(1,000.1)
<i>Advances recoverable from</i>				
Sundry Estimates voted by Parliament	5.1	(2,598.5)		(36.6)
Revenue Departments	5.2	(15.8)		0.0
			(2,614.3)	(36.6)
Total payments			(5,614.3)	(1,036.7)
Surplus of receipts over payments for the financial year			0.0	0.0

The notes on pages 13-16 form part of these accounts.

Notes to the Accounts

1 Accounting Policies

1.1 Basis of preparation

The financial statements of the Contingencies Fund have been prepared in accordance with a Direction given by HM Treasury, and the requirements of the 2011-12 Government Financial Reporting Manual (FReM). The Statement of Cash Flows, which shows receipts and payments only, is in accordance with the Accounts Direction. The current version of the FReM is based on International Financial Reporting Standards (IFRS).

The accounts have been prepared under the historical cost convention.

The Contingencies Fund receives its funding from the Consolidated Fund and expects to recover all advances it makes to departments. It is therefore appropriate to prepare the Account on a going concern basis.

There are no areas of the financial statements that are reliant on management's judgement in the process of applying the Contingencies Fund's accounting policies. There are no sources of estimation uncertainty at the balance sheet date.

The financial statements of the accounts are rounded to the nearest £0.1 million.

1.2 IFRS in issue but not yet effective

There are no IFRS in issue but not yet effective which are expected to have an impact on the financial statements of the Contingencies Fund.

1.3 Functional and presentation currency

The financial statements of the Contingencies Fund are presented in sterling, which is the Contingencies Fund's functional currency.

1.4 Financial Assets and Liabilities

All assets and liabilities are financial assets and liabilities.

2 Income and expenditure

As interest is not receivable on its advances nor payable on its liabilities, the Contingencies Fund does not receive any income, nor does it incur any expenditure. Consequently, no Statement of Comprehensive Net Expenditure is presented.

3 Cash and cash equivalents

Cash and cash equivalents comprise a cash balance held by the Government Banking Service. A balance of £1,500,000 was held at both the start and end of the financial year 2011-12. This is equal to the permanent capital of the Contingencies Fund, as specified by section 52 of the Finance Act 1921.

4 Sums repayable to the Consolidated Fund

The Contingencies Fund's permanent capital of £1,500,000 has been treated as a long-term liability to the Consolidated Fund.

5 Advances and repayments

Contingencies Fund advances and repayments that contributed to cash flow in 2011-12 were as follows:

	Code (see Note 6)	2011-12 Advances £m	2011-12 Repayments £m	2010-11 Advances £m	2010-11 Repayments £m
<i>5.1 Advances to Departmental Supply Estimates</i>					
Department for Work and Pensions	(c)	77.3	77.3	0.0	0.0
Armed Forces Pension Scheme	(d)	340.0	340.0	0.0	0.0
Department for Environment, Food and Rural Affairs	(e)	2,150.0	2,150.0	0.0	0.0
Government Actuary's Department ¹	(e)	0.0	0.0	2.4	2.5
National School of Government	(e)	0.0	0.0	3.0	3.0
Office of Gas and Electricity Markets	(e)	15.0	15.0	15.0	15.0
Office of Rail Regulation	(e)	10.0	10.0	10.0	10.0
Postal Services Commission	(e)	3.2	3.2	3.2	3.2
Water Services Regulation Authority	(e)	3.0	3.0	3.0	3.0
		2,598.5	2,598.5	36.6	36.7

In addition, the Department for Communities and Local Government was advanced £34,000 in 2011-12 (2010-11: £nil).

There were no advances outstanding at the end of the financial year 2011-12 (2010-11: £nil).

5.2 Advances in anticipation of revenue, as distinct from income, receipts

HM Revenue and Customs	(f)	15.8	15.8	0.0	0.0
Total		2,614.3	2,614.3	36.6	36.7

¹ The Government Actuary's Department was advanced £1.2 million in 2009-10 but had only repaid £1.1 million by 31 March 2010. The balance of £0.1 million was repaid in April 2010.

6 Analysis of reasons for issues of advances

The code letters shown against the advances indicate the purposes for which they were required and follow the definitions in section 5.13 of *Supply Estimates: a guidance manual*.

Total advances in 2011-12 attributable to each category were:

	2011-12 £m	2010-11 £m
a during the Vote on Account period, to meet urgent cash requirements (other than supporting a new service) in excess of the net cash requirement granted in the Vote on Account	0.0	0.0
b to meet the cash requirement supporting an urgent service which Parliament has already approved through specific enabling legislation but for which existing provision is not available	0.0	0.0
c to meet the cash requirement supporting a new service which is urgent and cannot await Parliamentary approval of both the specific enabling legislation and the necessary Estimate	77.3	0.0
d to meet a further urgent cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted	340.0	0.0
e in the case of an Estimate where expenditure is largely financed from income, advances may be made in anticipation of the receipt of cash associated with such income	2,181.2	36.6
f in anticipation of revenue, as distinct from income, receipts	15.8	0.0
Total	<u>2,614.3</u>	<u>36.6</u>

7 Financial Risks related to the Contingencies Fund

The cash requirements of the Contingencies Fund are met from the Consolidated Fund and so liquidity risk is borne by the Exchequer.

All of the transactions of the Contingencies Fund occur in sterling, and no interest is paid on issues to the Contingencies Fund from the Consolidated Fund, nor received on advances made by the Contingencies Fund. As a result, the Contingencies Fund is not subject to foreign currency or interest rate risk.

The Contingencies Fund's advances are solely to public sector entities which limits credit risk. Most advances in 2011-12 were made in anticipation of the receipt of cash from other sources by the borrower at a later date which will repay the advance (category e). For example, category e advances are generally made to regulatory bodies that are expected to raise income by charging the industry that they regulate, or charge for work carried out. If, for any reason, the income was not forthcoming, an entity would either seek a Supplementary Estimate or find savings within its existing provision to repay the Contingencies Fund.

Credit risk for category c advances is limited because an advance may only be made once the enabling legislation has received its second reading in the House of Commons. This provides assurance that the entity will obtain resource and capital cover in the Estimates to ensure repayment once Royal Assent has been granted to the enabling legislation.

Where Contingencies Fund advances are made to meet urgent cash requirements for existing services when provision on the Estimate is exhausted (category d advances), credit risk faced by the Contingencies Fund is limited, since once the relevant Consolidated Fund Bill has been granted Royal Assent, the Contingencies Fund will be repaid.

8 Commitments

At 31 March 2012 commitments had been made to make advances to departments totalling £28.0 million in the subsequent financial year (31 March 2011: £31.2 million): £15.0 million to the Office of Gas and Electricity Markets, £10.0 million to the Office of Rail Regulation, and £3.0 million to the Water Services Regulation Authority. These advances are in respect of category (e) advances, required at the start of the new financial year by regulatory bodies that largely finance their operations from income.

9 Related parties

The Treasury has a custodian role in relation to the Contingencies Fund. Therefore, as far as advances from and repayments to the Contingencies Fund are concerned, the Treasury is regarded as a related party.

During the year there were no transactions between the Treasury and the Contingencies Fund, and there was no balance outstanding at 31 March 2012 (31 March 2011: £nil).

The Contingencies Fund has transacted with a number of government departments during the year. These transactions are all disclosed in note 5.

10 Events after the reporting period

There are no post balance sheet events to report.

11 Date of Authorisation for Issue of Accounts

The accounts were authorised for issue on 18 May 2012.

Appendix

Contingencies Fund Account

Accounts Direction given by the Treasury

- 1 The Treasury shall prepare accounts for the Contingencies Fund for the year ending 31 March 2012 and each subsequent financial year, that give a true and fair view of the state of affairs of the Contingencies Fund at the reporting date and of its cash flows for the year then ended.
- 2 The accounts shall be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM).
- 3 The statement of cash flows shall show only receipts and payments.
- 4 Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.
- 5 This accounts direction shall be reproduced as an appendix to the accounts.
- 6 This accounts direction supersedes that issued on 17 March 2010.

Chris Wobschall

Deputy Director, Assurance and Financial Reporting Policy, HM Treasury
6 January 2012

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