Presented to Parliament pursuant to Section 21(1), Chapter 13 of the National Loans Act 1968
National Loans Fund Account 2008-2009

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Contents

	Page
Foreword	2
Statement of Accounting Officer's responsibilities	6
Statement on Internal Control	7
Certificate and Report of the Comptroller and Auditor General	10
Operating Cost Statement	12
Balance Sheet	13
Cash Flow Statement	14
Notes to the Accounts	15

Foreword

Background to the National Loans Fund

- 1. The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending, which were until then accounted for as part of the Consolidated Fund (CF). The CF was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service.' The NLF was setup in order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other. The accounts for the CF and NLF are now published separately.
- 2. Both the CF and NLF are administered by the Treasury, with the bank accounts maintained at the Bank of England. The CF can therefore be regarded as central government's current account, whereas the NLF can be regarded as central government's main borrowing and lending account. Most of the NLF's borrowing needs are now met indirectly through borrowing on its behalf by the Debt Management Office (DMO) and National Savings and Investments (NS&I).
- 3. The DMO was established as an executive agency of the Treasury on 1 April 1998. Its aim is 'to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way'. Its operations are managed through the Debt Management Account (DMA), which is a bank account at the Bank of England, linked closely with the NLF as described below. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts, on which the return is linked to movements in the Retail Price Index. They are issued from the NLF, sold initially to the DMA and then sold from the DMA by the DMO to the market. In addition, the DMO issues Treasury Bills from the DMA and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt and Reserves Management Report 2009-2010 published by the Treasury in April 2009 (ISBN: 978-1-84532-595-4).
- 4. The Exchange Equalisation Account (EEA) was established in 1932 to provide a fund that could be used, when necessary, to regulate the exchange value of sterling. It holds the UK's reserves of gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights. Combined with the UK's Reserve Tranche Position (RTP) with the IMF, these assets comprise the UK's official holdings of international reserves (the reserves). The RTP is an asset of the NLF. The Bank of England acts as the Treasury's agent in the day-to-day management of the EEA. It also acts as the Treasury's agent for foreign currency liability management, including the issuance of foreign currency debt to finance some of the reserves. This debt is issued by, and is an obligation of, the NLF under the National Loans Act 1968, since it is that Act (rather than the Exchange Equalisation Act 1979) which provides the powers for the government to issue foreign currency securities. The foreign currency raised by issuing foreign currency debt is transferred from the NLF to the EEA in exchange for sterling. The Bank manages the foreign currency assets and liabilities associated with the official reserves of the NLF in conjunction with those of the EEA as the Treasury's agent. This allows the foreign currency assets and liabilities associated with the reserves, and the risk exposures therein, to be managed collectively in an efficient way. Excluding amounts due to the IMF, during 2008-2009 all the NLF's foreign currency debt matured and was repaid. At 31 March 2008, foreign currency debt of £1.5 billion was outstanding.

National Loans Fund Activities

5. The NLF's main role is to meet the finance needs of the Consolidated Fund to the extent that taxation and other receipts are insufficient to meet the CF's outgoings. To this end the NLF undertakes borrowing and uses the proceeds to meet any deficits on the CF; conversely, any net surpluses on the CF are passed to the NLF to reduce the latter's need to borrow or to increase the amount that it can lend. The NLF finishes every day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the DMA.

- 6. The NLF's borrowing operations include the temporary borrowing of balances in various government bank accounts that are surplus to immediate requirements. Such borrowing minimises the amount that the NLF needs to borrow from other sources. Where the money borrowed in this way already counts as Exchequer money, interest is not paid. For the rest of its borrowing, however, the NLF normally has to pay interest and finance repayments when required. However, if the NLF's interest income is less than the interest it pays on its borrowings (which it generally is), the shortfall is met by a transfer from the CF.
- 7. The NLF provides finance for both the DMA and the EEA as required. It also makes loans to various statutory public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB) for its loans to prescribed bodies, mainly Local Authorities. The profits of the Issue Department of the Bank of England are paid to the NLF. NS&I's savings products, other than the Ordinary Account, are liabilities of the NLF. In year surpluses and deficits of the DMA and the EEA are income and expenditure of the NLF respectively, and the net assets of the DMA and the EEA are assets of the NLF. The Capital Contribution Reserve of the EEA is periodically reduced, because when there is no outstanding specific liability to the NLF, sterling repayments by the EEA to the NLF are taken to the Capital Contribution Reserve.
- 8. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF.

The impact of events in the Financial Sector

- 9. The NLF does not engage in transactions with commercial banks and so has not been directly exposed to events in the financial sector such as increases in credit risk or decreases in the value of financial sector assets. However, the NLF's accounts have been greatly impacted by the Special Liquidity Scheme. This was launched by the Bank of England on 21 April 2008 to allow banks to swap, for up to three years, their high quality mortgage-backed and other securities for Treasury Bills. Treasury Bills for this purpose are issued with a maturity of nine months by the NLF and sold to the DMA which makes them available to be borrowed by the Bank of England. The drawdown period for the Special Liquidity Scheme closed on 30 January 2009 when Treasury Bills with a face value of £185.7 billion had been lent under the Scheme. Although the drawdown window has now closed the scheme will remain in place for three years, thereby providing participating institutions with continuing liquidity support and certainty. Additional Bills have been created to be held by the DMA to be available to replace the maturing Bills. The Bank of England pays stock lending fees to the DMA for the loan of Treasury Bills under the Special Liquidity Scheme. A portion of these fees is payable to the NLF. More details of the scheme are available from the Bank of England's website. The main impacts on the accounts are described in the Summary of Outturn for 2008-2009 section, below.
- 10. Additionally, gilts with a nominal value of £47,752 million (2007-2008: £nil) were created by the NLF and sold to the DMA in connection with the Bank of England's Discount Window Facility (DWF). The purpose of the DWF is to provide liquidity insurance to the banking system. More details of this scheme are available on the Bank of England's website.
- 11. HM Treasury required an additional £88.7 billion of funding from the Consolidated Fund through the Supply process in 2008-2009, and additionally £1.6 billion paid in respect of providing financial assistance to the Dunfermline Building Society. The funding requirement was due to a number of financial sector interventions and was provided from the NLF. Gilts issuance increased significantly as a result of this. The impact on the accounts is described in the Summary of Outturn for 2008-2009. Details of how HM Treasury used the cash issued to it from the CF can be found in HM Treasury's 2008-2009 Annual Report and Resource Accounts.
- 12. NS&l's remit was to raise £4.2 billion during the year but eventually £12.8 billion was received. Much of the additional cash raised was attributable to concerns amongst retail depositors during the credit crunch.
- 13. The NLF has not been impacted by any other government schemes to provide financial assistance directly to the banking sector.

Summary of Outturn for 2008-2009

- 14. The net operating cost of the Fund decreased by £7.7 billion from £22.3 billion in 2007-2008 to £14.6 billion in 2008-2009. This was mainly due to an increase in the net surplus of the DMA of £8.5 billion, largely driven by unrealised gains on the DMA's holdings of gilts and Treasury Bills, an increase in income from lending operations of £4.8 billion, mainly arising from interest on funding advanced to the DMA, and an increase in the net income of the EEA of £2.1 billion, driven by an increase in the price of gold and foreign exchange gains. Against this, finance costs of borrowing increased by £7.7 billion during the year.
- 15. Total gross liabilities increased by £464.1 billion from £661.0 billion to £1,125.1 billion. The main factors behind this rise were an increase of £245.5 billion in the Fund's liability in respect of gilt-edged stock and a new liability in 2008-2009 of £204.5 billion for Treasury Bills issued in respect of the Bank of England's Special Liquidity Scheme. During the year, gilts with a nominal value of £55,600 million (2007-2008: £3,890 million) were created by the NLF and sold to the DMA for use as collateral in its Exchequer cash management operations. Additionally, gilts with a nominal value of £47,752 million (2007-2008: £nil) were created by the NLF and sold to the DMA in connection with the Bank of England's Discount Window Facility (DWF). Of the total increase in the liability in respect of gilt-edged stock of £245.5 billion, £109.9 billion is held by the DMA and £135.6 billion was sold to other investors to enable the NLF to provide finance for the CF. There was also an increase of £12.8 billion in NS&I liabilities, as noted above.
- 16. The NLF's total gross assets increased by £305.0 billion to £394.7 billion. The main changes were new advances made to the DMA of £392.0 billion for the purchase of Treasury Bills and gilts collateral, of which £100 billion had been repaid by year end, and an increase of £9.3 billion in the net assets of the DMA. The DMA's purchase of collateral was principally to enable its role in the Discount Window Facility. The increase in the net assets of the DMA was mainly due to unrealised gains on holdings of gilts and Treasury Bills. There was also an increase of £2.3 billion in the value of the UK's Quota Subscription to the IMF, due to exchange rate movements, and an increase in the net assets of the Exchange Equalisation Account of £1.8 billion driven by an increase in the price of gold and foreign exchange gains.
- 17. As a result of these changes, the net liabilities of the Fund increased from £571.2 billion to £730.4 billion. As explained above, this is matched by a corresponding claim on the CF. The NLF lends to and borrows from other parts of the public sector. For example it makes advances to the PWLB and borrows directly from a range of public sector bodies (as described in note 10). In addition, some of the gilts it has issued are held in the public sector, including by the DMA which retains a portfolio of gilts as collateral for its money market activities. The DMA also has large advances to and from the NLF. Therefore, the NLF's net liabilities do not equate to the Public Sector Net Debt (PSND), which is a calculation of the net debt of the whole of the public sector after eliminating intra-public sector balances. Figures for PSND are published jointly by HM Treasury and the Office for National Statistics in the monthly 'Public Sector Finances First Release', which can be found on the Treasury website.

Forward look

18. The Debt Management Remit for 2009-2010 was published by the Treasury with the Budget on 22 April 2009. On the basis of a Central Government Net Cash Requirement forecast of £220.8 billion for 2009-2010, the published net financing requirement was £237.8 billion. This difference relates to upwards adjustments of £16.6 billion for gilt redemptions and £2.0 billion relating to transactions with the official foreign currency reserves, and downwards adjustments of £0.6 billion for short-term financing and £1.0 billion of financing for the Asset Purchase Facility. There is also a requirement to repay £3.8 billion of the Ways and Means Deposit from the Bank of England. The DMO will meet the total requirement by gilt sales of £220.0 billion and Treasury Bill sales of £21.6 billion.

Preparation of the Account

19. The Account is prepared under section 21(1) of the National Loans Act 1968. The Act requires the Treasury to prepare an account for the NLF for each financial year in such form and containing such information as the Treasury considers appropriate.

Audit

- 20. The NLF Account is audited by the Comptroller and Auditor General under the requirements of the National Loans Act 1968.
- 21. 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 NLF's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the NLF's auditors are unaware.

The NAO bears the cost of all external audit work performed on the NLF.

Nicholas Macpherson Accounting Officer HM Treasury 14 July 2009

Statement of Accounting Officer's responsibilities

Under section 21(1) of the National Loans Act 1968 HM Treasury is required to prepare an account relating to the National Loans Fund for each financial year in such form and containing such information as the Treasury considers appropriate.

The National Loans Fund Account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and of the net operating cost and the cash flows for the financial year.

The Treasury has appointed its Permanent Secretary as Accounting Officer for the Fund, with overall responsibility for its operation, for preparing the annual account and for transmitting it to the Comptroller and Auditor General for audit.

In preparing the Account the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Managing Public Money'.

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the National Loans Fund, I have responsibility for maintaining a sound system of internal control to support 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'. I am also obliged to conduct a review of the effectiveness of the system of internal control. This review covers all controls, including financial, operational and compliance controls and risk management. The National Loans Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resource allocation and utilisation and the management of risks across the Treasury's business. In addition, there are further controls that are specific to the management of the National Loans Fund, as detailed below.

The National Loans Fund is managed by the Treasury Accountant and his managers within the Exchequer Funds and Accounts (EFA) Team of HM Treasury.

The purpose of the system of internal control

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 National Loans 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. The system of internal control has been in place throughout the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

EFA is managed within HMT's risk management framework. EFA management is responsible for ensuring that the operations in their area are compliant with plans, policies, procedures and legislation. EFA staff working on the National Loans Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk management is provided as required, either by management or by attending appropriate courses. Guidance on risk management is available to all staff on the intranet and individuals' objectives reflect the need to manage risks, particularly those related to business continuity. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes.

The risk and control framework

Risk management is key to all processes within EFA, including business continuity resilience planning for those public funds for which EFA is responsible. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and identify appropriate mitigating actions. Significant risk issues are assessed by likelihood and impact.

The key risks and controls associated with the National Loans Fund have not changed as a result of turbulence in financial markets.

The key risks in managing the National Loans Fund are

- irregularity of transactions, including fraudulent or erroneous payments;
- incorrect accounting;
- failure of IT systems;

- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counterparties to provide agreed services.

EFA has various controls in place for managing the risks associated with the National Loans Fund. Clear separation of duties is enforced by appropriate user permissions within the Accounting System and payment approval panels. Up-to-date policy and procedures manuals including job instructions are readily accessible to all operational staff. Payment instructions are computer-generated and are derived from underlying transaction records. This minimises the risk of keying errors. In addition application controls exist within the IT system used to manage financial transactions and account for receipts and payments on the Fund. There is also a clear and comprehensive audit trail in the IT system, to which the National Audit Office Exchequer Section has real-time access. Well-developed Service Level Agreements covering financial relationships, standards and requirements for the interchange of information with all principal counterparties are in place. Information and data protection risk are regularly reviewed. Gilts issuances and treasury bill transactions are reported to senior management on the day. Additionally, a monthly review of the activity of the Fund is performed by the Treasury Accountant.

A number of controls exist in respect of business continuity. To ensure operational resilience in key areas in the event of a business continuity situation, staff within EFA are trained to do a range of jobs and are required to swap jobs periodically to keep their knowledge up to date. Measures are in place to enable the essential payments business to continue in the event of the normal arrangements for granting credit being disrupted. The risks that impact upon EFA's key stakeholders are managed by their involvement in business continuity planning and testing. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan facilities

Separately, the Comptroller and Auditor General, through the National Audit Office Exchequer Section authorises National Loans Fund payments in advance and reconciles Fund transactions on a daily basis.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, Consolidated Fund, National Loans Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of the National Debt. The Chair of the Committee reports to me on matters relating to the National Loans Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The current membership of the Committee is

- Colin Price, Chair, non-executive Director of the Debt Management Office's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive Director of the Debt Management Office's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing 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 National Loans Fund in 2008-2009, 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 Exchequer Funds Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2008-2009 accounts in draft and provided me with its views before I formally signed the accounts. In my opinion, the system of internal control was effective with no significant control issues identified in 2008-2009.

Nicholas Macpherson Accounting Officer HM Treasury 14 July 2009

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2009 under the National Loans Act 1968. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparation of the Foreword, the Statement on Internal Control and the financial statements in accordance with Section 21(1) of the National Loans Act 1968 and in the form prescribed by HM Treasury. The Accounting Officer is also responsible for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether they have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HMTreasury. I report to you whether, in my opinion, the information included in the Foreword is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if other information specified by HM Treasury is not disclosed.

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

I read the Foreword and consider the implications for my report if I become aware of any apparent misstatements within it.

Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Loans Fund's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury, of the state of the National Loans Fund's affairs as at 31 March 2009, and of the net operating cost, recognised gains and losses and cash flows for the year ended 31 March 2009;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury; and
- information included in the Foreword is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General

16 July 2009

National Audit Office 151 Buckingham Palace Road Victoria London SW1W 9SS

Operating Cost Statement for the year ended 31 March 2009

	Note	2008-2009 £m	2007-2008 £m
Finance costs of borrowing	2	39,663	31,966
Income from lending operations	3	(7,913)	(3,138)
Gains on foreign exchange transactions	4	(249)	(58)
Other expenditure	5	54	4
Other income	5	(16,980)	(6,496)
Net operating cost		14,575	22,278

There are no recognised gains and losses other than those included in the Operating Cost Statement.

The notes on pages 15 to 30 form part of this Account.

Balance Sheet as at 31 March 2009

	Note	31 March 2009	31 March 2008
		£m	£m
Assets			
Advances	8	344,375	52,703
IMF Quota Subscription	7	11,196	8,881
Loans	6	2,882	3,001
Other assets	9	36,262	25,180
Total assets		394,715	89,765
Liabilities			
Gilt-edged stock	13	735,504	489,955
National Savings and Investments products	12	97,195	84,430
Liabilities to the IMF	7	9,501	8,320
Other debt payable in sterling			
Treasury Bills	10	204,459	0
Other	10	78,427	76,754
Other debt payable in foreign currencies	11	0	1,534
Total liabilities		1,125,086	660,993
Liability of the Consolidated Fund to the National Loans Fund	14	730,371	571,228

The notes on pages 15 to 30 form part of this Account.

Nicholas Macpherson Accounting Officer HM Treasury 14 July 2009

Cash Flow Statement for the year ended 31 March 2009

		2008-2009	2007-2008
No	ote	£m	£m
Net cash inflow/(outflow) from operating activities 1	5(i)	0	0
Net cash (outflow) from financial investment	5(ii)	(287,813)	(2,115)
Net cash inflow from financing 15	i(iii)	287,813	2,115
Net cash flow		0	0

The notes on pages 15 to 30 form part of this Account.

Notes to the Accounts

1 Accounting policies

i Accounting convention

The National Loans Fund Account has been prepared under the historical cost convention and in accordance with applicable accounting standards and generally accepted accounting practice in so far as they are relevant to transactions and balances within the National Loans Fund. These include FRS 26 'Financial Instruments: Recognition and Measurement' and FRS 29 'Financial Instruments: Disclosures' (with the exception of Appendix E 'Capital Disclosures' which is not relevant to this Account).

ii Basis of presentation

This Account includes the results and transactions of the National Loans Fund. The NLF is the government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is mainly met by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

iii Recognition of finance income and costs

Premium Bond prizes are recognised in the period to which they relate. Other interest income and costs of financing are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. The calculation takes into account premiums or discounts on acquisition or issue of financial assets and liabilities and all the contractual terms of the financial instrument. The majority of the NLF's financial assets and liabilities have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. 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.

iv Financial assets and liabilities

The assets and liabilities of the NLF are all accounted for as financial assets and liabilities except for assets arising from the net assets of the Exchange Equalisation Account and the Debt Management Account, which are accounted for as explained in accounting policy (viii). The NLF's financial assets are all designated as loans and receivables. Financial assets and liabilities are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method. There are no impairment losses. Directly related issue costs for assets and liabilities are negligible and are written off as incurred.

The distinction between loans and advances derives from the legislation that governs the operation of the NLF. On loans interest must be charged at a rate that at least covers the cost that the Fund would have to bear if it were to borrow the same sum for the period of the loan, plus the Treasury's own administration costs. There is no such requirement for advances, although interest is charged at base rate on advances to the Debt Management Account.

The fair values of the financial assets and liabilities are disclosed in note 17. They are calculated by reference to market prices where instruments are traded on an active quoted market, or, where this is not the case, as the net present value of future cash flows.

v Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Liabilities to the IMF are denominated in sterling, but are subject to a revaluation adjustment reflecting the SDR/£ sterling exchange rate movement.

vi Administration expenditure

These financial statements reflect the activity through, and the financial position of, the National Loans Fund. The costs of gilts registration, listing fees and foreign currency debt issuance are met by the National Loans Fund. Administration costs, such as departmental staff costs and bank charges, are borne by the appropriate body and are accounted for through their respective resource accounts.

vii Fee income

The Bank of England pays stock lending fees to the DMA for the loan of Treasury Bills under the Special Liquidity Scheme. A portion of these fees is payable to the NLF. Fee income receivable from the DMA is accrued as earned.

viii Exchange Equalisation Account and Debt Management Account

The net assets of the Exchange Equalisation Account (EEA) and the Debt Management Account (DMA) are assets of the NLF. Changes in the net assets are reported in Other Assets (Note 9) and recognised in the Income and Expenditure Account as Other Income (Note 5). The NLF's assets and income are the result of the activity in the EEA and DMA during the year and the various accounting policies applied by them to that activity.

2 Finance costs of borrowing

2008-2009	2007-2008
Gilt-edged stock	£m
Marketable 29,588	25,474
Non-marketable 29	37
Total 29,617	25,511
Treasury Bills 6,114	0
National Savings and Investments products 2,554	3,325
Other finance costs	
Payable in sterling 1,369	3,097
Payable in foreign currencies 9	33
Total finance costs on borrowing 39,663	31,966
3 Income from lending operations	
2008-2009	2007-2008
£m	£m
Interest on loans advanced by the National Loans Fund to	07
Public corporations 86	87
Central government bodies 106	117
192	204
Interest on loans by the Public Works Loan Board financed by NLF advances 3,174	2,934
Interest on funding advanced to the Debt Management Account 4,547	0
Total income from lending operations 7,913	3,138

2008-2009 2007-2008

4 Gains on foreign exchange transactions

	£m	£m
Losses/(Gains) on foreign currency borrowing		(20)
US dollar	4	(20)
(Gain) on Reserve Tranche Position at the IMF	(253)	(38)
Net (gain) on foreign currency transactions	(249)	(58)
5 Other income and expenditure		
	2008-2009	2007-2008
	£m	£m
Other expenditure		
Debt management administration costs*	3	3
Expenditure in respect of depreciation of Issue Department Assets**	51	1
Total: Other expenditure	54	4
Other income		
EEA net income	(5,414)	(3,315)
Profits of the Bank of England Issue Department**	(1,837)	(2,327)
Income in respect of appreciation of Issue Department Assets**	(344)	0
Surplus on the Debt Management Account	(9,345)	(846)
Written off gilt-edged stock	0	(1)
SLS Fee income from the DMA	(32)	0
Miscellaneous receipts	(8)	(7)
Total: Other income	(16,980)	(6,496)
Net total	(16,926)	(6,492)

- * Debt management administration costs mainly comprise amounts paid to the Gilts Registrar for administering the gilt-edged stock register. They also include the Bank of England's costs relating to the issue of foreign currency borrowing.
- ** Under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the National Loans Fund. A sum of £1,837 million in respect of these profits was credited to the Operating Cost Statement in 2008-2009 (£2,327 million in 2007-2008). In addition, the Bank of England Issue Department is required by the Currency and Bank Notes Act 1928 to hold investments equal to the value of bank notes in issue. Periodically these investments are revalued to market value. If the market value is less than the value of notes in issue, legislation requires the National Loans Fund to pay an amount equal to the deficiency to the Issue Department to finance the purchase of additional investments. Conversely, if the market value of the assets exceeds the value of the notes in issue, the Issue Department sells investments to the value of the surplus and pays the proceeds to the National Loans Fund.

6 Loans and commitments to lend

	2008-2009 2007-2					007-2008
	Public	Central	Total	Public	Central	Total
	Corporations	Government		Corporations	Government	
_	£m	£m	£m	£m	£m	£m
Loans						
Principal outstanding at 1 April	1,334	1,637	2,971	1,364	1,658	3,022
Loans advanced	278	18	296	74	100	174
Loans repaid	(289)	(125)	(414)	(104)	(121)	(225)
Principal outstanding at 31 March	1,323	1,530	2,853	1,334	1,637	2,971
Accrued interest	12	17	29	12	18	30
Total asset outstanding	1,335	1,547	2,882	1,346	1,655	3,001
		20	08-2009		20	007-2008
	Public	Central	Total	Public	Central	Total
	Corporations	Government		Corporations	Government	
<i>_</i>	£m	£m	£m	£m	£m	£m
Commitments to lend						
Undrawn commitments to lend						
Maturity period						
less than one year	611	0	611	590	159	749
one year and over	600	0	600	600	0	600
	1,211	0	1,211	1,190	159	1,349

The NLF has not made any loans, and does not have any commitments to lend, in respect of financial institutions classified as Public Corporations during the year.

7 IMF Reserve Tranche Position

The United Kingdom's relationship with the International Monetary Fund impacts on the National Loans Fund, the UK's Foreign Exchange Reserves and the Exchange Equalisation Account (EEA). The UK's Quota Subscription to the IMF, 10,738.5 million Special Drawing Rights (SDRs) equivalent to £11,196 million at 31 March 2009 (£8,881 million at 31 March 2008), was paid from the National Loans Fund and is recognised as a NLF asset. Part of the Subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS) which totalled £7,397 million at 31 March 2009 (£7,667 million at 31 March 2008). A small undrawn sterling cash balance of £28 million (£21 million at 31 March 2008) was held in an IMF account at the Bank of England. The IMF's sterling holdings in the UK in the form of its NLF NIBS and its sterling balance at the Bank of England represent an NLF liability to the IMF.

The difference between the gross Quota Subscription and the NLF's sterling liability to the IMF is the UK's Reserve Tranche Position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value, in SDR terms, of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May. The cumulative valuation adjustment at 31 March 2009 was £2,076 million (£632 million at 31 March 2008).

The table sets out the composition of the RTP at 31 March 2008 and 31 March 2009, and shows the make-up of changes over the year.

The RTP represents an SDR asset that can be drawn on by the UK if needed. Because the RTP is a net asset of the NLF it is therefore also considered as part of the UK's Foreign Exchange Reserves. Sterling transactions by the IMF impact on the level of NIBS, and hence on the RTP. Under current policy, changes in the RTP lead to adjustments in the composition of other Reserve Assets, in order to keep the portfolio composition of the Reserves in line with plan.

Interest is payable by the IMF on the RTP balance in excess of SDR 700 million. This interest is retained in the EEA. The EEA also holds the UK's allocation of SDRs (SDR 1,913 million at 31 March 2009), as a liability to the IMF, and retains an asset in the form of the UK's holdings of SDRs (SDR 288 million at 31 March 2009).

During 2008-2009 a net payment was made of £887m to the IMF in support of Funding programmes (a net receipt to the NLF of £97m in 2007-2008).

NLF Assets and Liabilities: Composition of the Reserve Tranche Position

	Assets		Liabilities			
	IMF Quota	Total	Position			
Su	ubscription	bearing	Sterling balances at	adjustment	liabilities	
	securities	securities	Bank of England			
	£m	£m	£m	£m	£m	£m
Balances at 1 April 2008	8,881	(7,667)	(21)	(632)	(8,320)	561
Exchange rate gains for the year on the Quota subscription	2,315					2,315
Change in year-end valuation adjustr	nent			(1,444)	(1,444)	(1,444)
Change in loan notes as a result of the	2					
valuation settlement		(617)			(617)	(617)
Change in cash on No 1 account			(7)		(7)	(7)
Net decrease in loan notes		887			887	887
Balances at 31 March 2009	11,196	(7,397)	(28)	(2,076)	(9,501)	1,695
8 Advances						
	PWLB £m					otal £m

	£m			£m		£m		1
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
Principal outstanding at 1 April	50,753	48,111	0	0	1,330	1,805	52,083	49,916
Advances	6,360	10,000	392,000	0	960	1,125	399,320	11,125
Advances repaid	(6,244)	(7,358)	(100,000)	0	(1,530)	(1,600)	(107,774)	(8,958)
Principal outstanding at 31 March	50,869	50,753	292,000	0	760	1,330	343,629	52,083
Accrued interest	580	620	166	0	0	0	746	620
Total advances outstanding	51,449	51,373	292,166	0	760	1,330	344,375	52,703

9 Other assets

		31 March 2009 £m		31 March 2008 £m
Exchange Equalisation Account net assets		25,327		23,528
Debt Management Account net assets		10,235		890
National Savings and Investments' cash holdings				
from sale of investment products	493		598	
for repayment of principal	145		117	
for payment of interest and prizes	26		26	
NS&I Total		664		741
SLS accrued fee income from the DMA		8		0
Reserve Tranche sterling balances at Bank of England		28		21
Total other assets		36,262		25,180
10 Other debt payable in sterling				
			At 31 March	At 31 March
			2009	2008
			£m	£m
Treasury Bills			204,459	0
Other				
Debt Management Account			48,967	49,140
Bank of England Issue Department			4,144	7,403
Balances from government accounts at the Bank of England			16,383	16,288
Temporary deposits from public sector bodies			7,792	3,473
Other			1,141	450

These items reflect borrowing by the NLF. Treasury Bills have been issued by the NLF to the DMA in connection with the Bank of England's Special Liquidity Scheme. When the Scheme closed on 30 January 2009 the face value of Bills lent to financial institutions by the Bank of England was £185.7 billion. Additional bills have been created to be held by the DMA to be available to replace maturing Bills. The fair value of Treasury Bills issued at 31 March 2009 was £205,147 million. Further information on the scheme is provided in paragraph 9 of the Foreword, and can also found on the websites of the Bank of England and the Debt Management Office. The next two items reflect deficit funding from the DMA and previously the Issue Department of the Bank of England. The fourth item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at the Bank of England.

78,427

282,886

76,754

76,754

11 Other debt payable in foreign currencies

Total other debt payable in sterling

•	At 31 March	At 31 March
	2009	2008
	£m	£m
HMG US \$3 billion 2.25 per cent Bond 2008	0	1,509
Accrued interest	0	25
Total foreign currency debt	0	1,534

12 National Savings and Investments products

2		
-	2008-2009	2007-2008
	£m	£m
Principal outstanding at 1 April	83,177	77,260
Cash repayments from the NLF	(13,770)	(10,049)
Principal cash received in the NLF	25,564	14,326
Capitalised interest and other returns to savers	1,609	1,462
Change in cash holdings for principal	(77)	178
Principal outstanding at 31 March	96,503	83,177
Accrued interest and other returns to savers	692	1,253
Total principal and accrued interest outstanding	97,195	84,430
13 Gilt-edged stock		
At 31 March		At 31 March
2009	0 (1)	2008
Outstanding liability (including accrued		ng liability ng accrued
interest)	(IIICIUUII	interest)
£m		£m
Marketable Securities		
Conventional 560,059		344,141
Index-Linked 175,133		145,242
735,192		489,383
Non-Marketable Securities		
Conventional 312		572
Index-Linked 0		0
312		572
Total gilt-edged stock 735,504		489,955

At 31 March 2009, £136,623 million (£26,761 million at 31 March 2008) of the total gilt-edged stock liability was held by the DMA, and £598,881 million (£463,194 million at 31 March 2008) was held by other investors.

14 Liability of the Consolidated Fund to the National Loans Fund

	2008-2009 £m	2007-2008 £m
Liability of the Consolidated Fund to the NLF at 1 April	571,228	519,312
Net cash paid to the Consolidated Fund	165,519	49,028
Payment from the Consolidated Fund to the NLF for the cost of debt servicing during the year	(20,951)	(19,390)
Net operating cost	14,575	22,278
Liability of the Consolidated Fund to the NLF at 31 March	730,371	571,228

15 Notes to the Cash Flow Statement

2008-2009	2007-2008
i Net cash flow from operating activities	£m
, ,	2 200
Interest received 7,789 Other receipts 2,131	3,290 2,327
Finance costs on borrowing (30,282)	•
Other flows (589)	
Transfer from the Consolidated Fund for the cost of debt servicing 20,951	19,390
Total net cash flow from operating activities 0	0
ii Net cash flow from financial investment	
Net change in advance to the Debt Management Account (292,000)	0
Net change in advance to the Public Works Loan Board (116)	(2,642)
Net change in loans 118	52
Net change in advance to the EEA 570	475
Reduction in EEA's capital contribution reserve 3,615	0
Total net cash outflow from investing activities (287,813)	(2,115)
iii Financing	
Net issuance of government stock 239,001	31,257
Net issuance of SLS Treasury Bills 202,438	0
Net issuance of National Savings products 11,794	4,277
Other net sterling borrowing 1,883	15,986
Net transfers of IMF non-interest bearing securities (270)	(377)
Net transfers of foreign currency borrowing (1,514)	0
Net transfer to the Consolidated Fund (165,519)	(49,028)
Total net cash flow from financing activities 287,813	2,115
Total net cashflow 0	0

16 Contingent liabilities

The NLF has a contingent liability to the Bank Of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This contingent liability was £36,198 million at 31 March 2009 (£34,344 million at 31 March 2008).

The NLF also has a contingent liability in respect of unclaimed dividends from the Commissioners for the Reduction of the National Debt (CRND). This stood at £54.1 million at 31 March 2009 (£50.1 million at 31 March 2008).

17 Fair values

Carrying Value and Fair Value of NLF assets and liabilities as at 31 March 2009

	March 2009
· •	ie Fair value
Assets	£m
Loans	
Principal 2,853	3,434
accrued interest 29	-
IMF quota subscription 11,196	11,196
Advances	•
PWLB 50,869	60,455
DMA 292,000	292,000
EEA 760	760
accrued interest 746	746
Other assets 36,262	36,262
Total assets 394,715	404,882
Liabilities Other sterling debt	
Treasury Bills 204,459	205,147
DMA 48,967	
Issue Department of Bank of England 4,144	-
Government balances 16,383	
Temporary deposits 7,792	
Other 1,141	-
National Savings and Investments 96,503	96,699
accrued interest 692	694
IMF liabilities 9,501	9,501
Gilts	
Marketable 735,192	791,744
Non-marketable 312	324
Total liabilities 1,125,086	1,182,536

Carrying Value and Fair Value of NLF assets and liabilities as at 31 March 2008

	Values at 31 March 2 Carrying value Fair v £m				
Assets		£m			
Loans					
Principal	2,971	3,333			
accrued interest	30	30			
IMF quota subscription	8,881	8,881			
Advances					
PWLB	50,753	59,453			
EEA	1,330	1,330			
accrued interest	620	620			
Other assets	25,180	25,180			
Total assets	89,765	98,827			
Liabilities					
Other sterling debt					
DMA	49,140	49,140			
Issue Department of Bank of England	7,403	7,403			
Government balances	16,288	16,288			
Temporary deposits	3,473	3,473			
Other	450	450			
Foreign debt					
US\$ bond	1,509	1,508			
accrued interest	25	22			
National Savings and Investments	83,177	82,093			
accrued interest	1,253	1,224			
IMF liabilities	8,320	8,320			
Gilts					
Marketable	489,383	525,936			
Non-marketable	572	580			
Total liabilities	660,993	696,437			

The NLF's assets are classified as financial assets except for the net assets of the EEA and DMA. The carrying value of financial assets (all of which are designated as loans and receivables) is £359,153 million (2008 – £65,347 million) and their fair value is £369,320 million (2008 – £74,409 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to market prices where instruments are traded on an active quoted market, or, where this is not the case, as the net present value of future cash flows.

The fair value of advances to the PWLB are calculated as the net present value of future cash flows. Loans by the PWLB are usually at a fixed rate of interest and so their fair value increases or decreases according to changes in the difference between the fixed rate of interest earned on the loan and current market values. Differences between the fair and book value will not be realised as the PWLB loans are not traded by the NLF.

The fair value of gilts and Treasury Bills are calculated by reference to their market prices. Gilts are generally left in issue until they are very close to maturity and so the difference between their fair value and book value will normally not be realised in the NLF accounts. Treasury Bills are created for use in the Bank of England's Special Liquidity Scheme. Under the scheme, Treasury Bills are replaced on maturity. Therefore the difference between fair value and carrying values will not normally be realised in the NLF.

18 Financial risks related to the NLF

The Government's debt management policy is set out in the annual Debt and Reserves Management Report. The debt management policy remains

'to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy'.

The debt management policy objective is achieved by

- pursuing an issuance policy that is open, transparent and predictable;
- issuing gilts that achieve a benchmark premium;
- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs;
- developing a liquid and efficient gilt market; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments.

Through these means, the Government seeks to choose a strategy that minimises the expected average debt cost over the longer term, and ensures that the chosen strategy is robust against different economic outturns.

For cash management, the aggregate balance on government accounts is swept daily to the National Loans Fund, and then to the Debt Management Account. The Debt Management Office deals with the financial markets to manage the daily cash surplus or deficit on the Debt Management Account relative to its target overnight balance, lending when there is a surplus and borrowing when there is a deficit.

The National Loans Fund's liabilities include conventional and index-linked gilt-edged securities and a wide range of National Savings and Investments products. There is a wide spread of maturities. NLF liabilities also include Treasury Bills in respect of the Bank of England's Special Liquidity Scheme. Treasury Bills for this purpose are issued with a maturity of nine months. The only foreign currency debt outstanding at the beginning of the year was a US dollar denominated bond. This was redeemed during the year, on the maturity date. At 31 March 2009 the NLF had no foreign currency debt outstanding. The NLF's liabilities also include deposits from several other public sector accounts.

NLF assets include advances to the Debt Management Account, the Public Works Loan Board and the Exchange Equalisation Account. The UK's gross Quota Subscription to the IMF is also an asset of the National Loans Fund, and is denominated in Special Drawing Rights (SDRs).

Set out below are certain risk factors that could affect the National Loans Fund's operations.

Interest rate, inflation and foreign currency risks

The NLF's liabilities have a range of interest rate arrangements. Some borrowing and lending is at variable rate, while other assets and liabilities have fixed, or zero, interest rates. The interest paid (and redemption sums) on index-linked gilts vary in line with changes in the Retail Price Index since the initial issue of each stock. National Savings and Investments product liabilities and the assets represented by Public Works Loan Board lending can be at variable or fixed interest rates.

The only NLF asset denominated in a foreign currency is the UK's gross Quota Subscription to the IMF. There were no foreign currency liabilities outstanding at the balance sheet date.

The following analyses set out the interest rate and foreign currency characteristics of NLF assets and liabilities. The timebands show the time after the balance sheet date that the items reprice. The weighted average interest rate relates to the total balance sheet amount for each item. Variable rate assets and liabilities generally all reprice within one month. Because of the long-dated nature of some fixed rate items, the weighted average time to their repricing is also shown in the table. This is, in effect, the time to their maturity as the rates on these items are fixed until maturity.

Interest rate and foreign currency risk analysis as at 31 March 2009 Assets

								_		
	Up to 1 Month/ repayable n demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated		Weighted average interest rate	ixed rate l Total fixed rate	ending Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Loans	1	30	232	2,590	0	29	2,882	6.5	2,853	14.8
Advances	292,151	1,771	5,279	43,652	0	1,522	344,375	1.2	50,694	27.0
Other assets	0	0	0	0	0	36,262	36,262	0	0	0
Sterling assets	292,152	1,801	5,511	46,242	0	37,813	383,519	1.2	53,547	26.3
subscription (SDR)	0	0	0	0	0	11,196	11,196	0	0	0
Total assets	292,152	1,801	5,511	46,242	0	49,009	394,715	1.1	53,547	26.3
Liabilities								ı	ixed rate	borrowing
	Up to 1 Month/ repayable n demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total liabilities	Weighted average interest rate	Total fixed rate	Weighted average time for which
										interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	interest rate is fixed Years
Sterling debt Gilts	£m	£m	£m	£m	£m	£m	£m	%	£m	is fixed
_	£m 0	£m 16,094	£m 157,318	£m 378,640	£m 2,873	£m 5,446	£m 560,371	%	£m	is fixed
Gilts								%	£m	is fixed
Gilts Conventional Index-Linked Gilt edged stock	0	16,094	157,318	378,640	2,873	5,446	560,371	%	£m 554,925	is fixed
Gilts Conventional Index-Linked Gilt edged	0 175,133	16,094 0	157,318 0	378,640	2,873 0	5,446 	560,371 175,133			is fixed Years
Gilts Conventional Index-Linked Gilt edged stock National Savings and	0 175,133 175,133	16,094 0 16,094	157,318 0 157,318	378,640 0 378,640	2,873 0 	5,446 5,446	560,371 175,133 735,504	4.7	554,925	is fixed Years
Gilts Conventional Index-Linked Gilt edged stock National Savings and Investments Treasury Bills	0 175,133 175,133 81,172	16,094 16,094	157,318 0 157,318 15,060	378,640 378,640	2,873 0 2,873	5,446 0 5,446	560,371 175,133 735,504 97,195	4.7 1.6	554,925 15,238	is fixed Years
Gilts Conventional Index-Linked Gilt edged stock National Savings and Investments Treasury Bills for SLS Other debt	0 175,133 175,133 81,172	16,094 0 16,094	157,318 0 157,318 15,060	378,640 378,640	2,873 0 2,873	5,446 0 5,446	560,371 175,133 735,504 97,195	4.7 1.6	554,925 15,238	is fixed Years
Gilts Conventional Index-Linked Gilt edged stock National Savings and Investments Treasury Bills for SLS Other debt payable in	0 175,133 175,133 81,172 20,448	16,094 16,094 178 184,011	157,318 0 157,318 15,060	378,640 0 378,640 0	2,873 	5,446 	560,371 175,133 735,504 97,195 204,459	4.7 1.6 2.2	554,925 15,238 204,459	is fixed Years 14.1 1.8 0.4
Gilts Conventional Index-Linked Gilt edged stock National Savings and Investments Treasury Bills for SLS Other debt payable in sterling	0 175,133 175,133 81,172 20,448 66,125	16,094 	157,318 0 157,318 15,060 0	378,640 0 378,640 0 0 0	2,873 0 2,873 0 0 0	5,446 0 5,446 785 0 12,302 9,501	560,371 175,133 735,504 97,195 204,459	4.7 1.6 2.2 0.4 0	554,925 15,238 204,459 7,779	is fixed Years 14.1 1.8 0.4
Gilts Conventional Index-Linked Gilt edged stock National Savings and Investments Treasury Bills for SLS Other debt payable in sterling IMF liabilities	0 175,133 175,133 81,172 20,448 66,125 0	16,094 0 16,094 178 184,011 0 0 200,283	157,318 	378,640 0 378,640 0 0 0 378,640	2,873 0 2,873 0 0 0 2,873	5,446 0 5,446 785 0 12,302 9,501 28,034	560,371 175,133 735,504 97,195 204,459 78,427 9,501	4.7 1.6 2.2 0.4 0	554,925 15,238 204,459 7,779 0	14.1 1.8 0.4 0

Interest rate and foreign currency risk analysis as at 31 March 2008

Assets

r	Up to 1 Month/ epayable n demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total assets	Weighted average interest rate	Fixed rate Total fixed Rate	lending Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Loans	1	17	265	2,688	0	30	3,001	6.6	2,971	15.4
Advances	51	666	3,223	46,806	0	1,957	52,703	5.5	50,671	29.5
Other assets	0	0	0	0	0	25,180	25,180	0	0	0
Sterling assets	52	683	3,488	49,494	0	27,167	80,884	3.8	53,642	28.7
IMF quota subscription (SDR)	0	0	0	0	0	8,881	8,881	0	0	0
Total assets		683	3,488	49,494		36,048	89,765	3.5	53,642	28.7
Liabilities										e borrowing
r	Up to 1 Month/ epayable n demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total liabilities	Weighted average interest rate	Total fixed Rate	Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Sterling debt Gilt										
Conventional	0	18,428	78,393	241,447	2,884	3,561	344,713			
Index-Linked	145,242	0	0	0	0	0	145,242			
Gilt edged stock National	145,242	18,428	78,393	241,447	2,884	3,561	489,955	4.9	341,152	14.8
Savings and Investments Other debt	70,155	1,295	11,721	0	0	1,259	84,430	3.8	13,016	2.0
payable in sterling	63,630	0	0	0	0	13,124	76,754	3.1	3,426	0.2
IMF liabilities	0	0	0	0	0	8,320	8,320	0	0	0
Sterling debt	279,027	19,723	90,114	241,447	2,884	26,264	659,459	4.3	357,594	14.2
Debt in foreign currency										
US\$	0	1,509	0	0	0	25	1,534	2.3	1,509	0.3
Total liabilitie	s279,027	21,232	90,114	241,447	2,884	26,289	660,993	4.3	359,103	14.2
Period Gap	278,975	20,549	86,626	191,953	2,884	(9,759)	571,228			
Cumulative Gap	278,975	299,524	386,150 	578,103	580,987	571,228				

Liquidity risk

NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments across a wide time period into the future. The longest stock in existence at 31 March 2009 matures in 2055. A small number of stocks are undated and can be redeemed by the Treasury at a time of its choosing. Deposits in the NLF have a shorter maturity profile, since they can change on demand. However, in practice, balances change only slowly due to re-investment. The NLF is the government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is met mainly by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

Contractual undiscounted cash flows of financial liabilities

The following table shows the contractual undiscounted cash flows of the NLF's liabilities. The amounts shown are the cash flows arising from the NLF's financial liabilities during the period up to and including maturity. This is in contrast to the basis on which the balance sheet amounts are calculated. As described in note 1, items on the balance sheet are valued at fair value upon initial recognition and subsequently held at amortised cost. Therefore totals in the following table will not agree to the balance sheet.

The treatment of coupon payments is of particular significance. The table includes contractual coupon payments for the period to maturity based on interest rates or, in the case of index-linked gilts, the retail price index at 31 March 2009. Because of the many coupon payments to be made for longer dated gilts the table below reports coupon cash flows of £419,091m whereas the Gilts liability in the balance sheet contains accruals to the balance sheet date of £21,981m. Undated Gilts do not have a contractual maturity date and so coupon payments on them (currently £96m per annum) are not included in the table below.

The cash flows reported in the table will be funded by replacement debt issues, the proceeds of assets or by finance from the Consolidated Fund.

At 31	March	2009
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At 31 March 2009							
	Up to	1-3	3-12	1-5	Over 5	Undated	Total
	1 month	months	months	years	years	_	_
1 :- 1-:1:4:	£m	£m	£m	£m	£m	£m	£m
Liabilities							
Conventional Gilts							
Principal	0	0	15,958	154,365	370,311	2,872	543,506
Coupons	0	6,907	20,290	89,140	255,591	0	371,928
Index-Linked Gilts							
Principal	0	9,421	0	32,442	128,153	0	170,016
Coupons	215	465	2,868	12,616	31,000	0	47,164
Total Gilts	215	16,793	39,116	288,563	785,055	2,872	1,132,614
NS&I	96,689	0	136	362	0	94	97,281
IMF	9,501	0	0	0	0	0	9,501
Treasury Bills for SLS	20,503	34,725	150,466	0	0	0	205,694
Temporary Deposits	7,467	327	0	0	0	0	7,794
Other debt payable							
in sterling	70,635	0	0	0	0	0	70,635
	205,010	51,845	189,718	288,925	785,055	2,966	1,523,519

The maturity of liabilities after five years is

		5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Conventional Gilts							
Principal		119,822	98,764	80,644	39,121	31,960	370,311
Coupons		78,314	95,853	51,820	23,108	6,496	255,591
Index-Linked Gilts							
Principal		31,626	50,594	34,549	4,348	7,036	128,153
Coupons		11,639	13,185	4,387	1,173	616	31,000
		241,401	258,396	171,400	67,750	46,108	785,055
As at 31 March 2008							
	Up to 1	1-3	3-12	1-5	Over 5	Undated	Total
	month	months	months	years	years		
Liabilities	£m	£m	£m	£m	£m	£m	£m
Conventional Gilts							
Principal	0	0	18,472	78,059	238,394	2,884	337,809
Coupons	17	4,506	12,884	59,273	170,539	2,864	247,219
Index-Linked Gilts	17	7,500	12,004	33,213	170,555	U	277,217
Principal	0	0	0	21,649	119,881	0	141,530
Coupons	199	329	2,665	11,527	27,491	0	42,211
•							
Total Gilts NS&I	216	4,835 95	34,021 158	170,508 736	556,305	2,884 0	768,769
IMF	83,552 8,320	95	0	730	5 0	0	84,546 8,320
Temporary Deposits	1,138	2,226	136	0	0	0	3,500
Other debt payable	1,136	2,220	130	U	U	U	3,300
in sterling	73,281	0	0	0	0	0	73,281
Other debt payable	,						,
in foreign currencies	0	0	1,534	0	0	0	1,534
	166,507	7,156	35,849	171,244	556,310	2,884	939,950
The maturity of liabilities	after five year	rs is					
		5-10	10-20	20-30	30-40	Over 40	Total
		years	years	years	years	years	_
Conventional Gilts		£m	£m	£m	£m	£m	£m
Principal		73,929	58,576	54,598	39,575	11,716	238,394
Coupons		53,458	66,160	33,548	13,390	3,983	170,539
Index-Linked Gilts		33, 130	50,100	33 ₁ 3-10	15,550	5,505	., 0,557
Principal Principal		45,606	42,060	24,891	1,497	5,827	119,881
Coupons		10,599	11,590	3,878	841	583	27,491
NS&I		5	0	0	0	0	5
		183,597	178,386	116,915	55,303	22,109	556,310

Credit risk

Due to the nature of its borrowers, the NLF is not exposed to significant credit risk. In respect of loans financed by the NLF, the financial relationship with the borrower is managed by the department responsible for the relevant public corporation. The sponsoring department performs due diligence on the borrower and proposes the loan. The Treasury reviews the proposal and, if the proposal is approved, the NLF will make the loan. The NLF is not allowed to accept losses on its loans. Any such losses can only be written off by primary legislation; however, in 1990 the Treasury gave an undertaking to the Public Accounts Committee that it would not seek Parliament's approval to such a course except as part of a reconstruction of the borrower's finances prior to privatisation. In other cases the Treasury would look to the borrower's sponsor department to cover any losses from its resource account.

In the case of advances to the Public Works Loan Board for loans to Local Authorities, the PWLB manages the financial relationship with the borrower, though the credit risk is borne by the NLF.

In the context of NLF loans issued to trading organisations at market rates, under the Commercial Lending policy, the terms and interest rates are designed to reflect the terms on which a private sector lender, such as a commercial bank, would lend to the borrower if the borrower were a wholly private sector body, rather than a government body.

Ceilings on total lending from the NLF to specific bodies are prescribed in the statutes governing each loan. The PWLB is allowed to lend up to an aggregate amount of £70 billion (2007-2008: £55 billion). For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

Derivatives and hedging

The NLF itself does not use derivatives or undertake hedging. However, as explained in more detail below, some of the risks on the NLF are offset by hedging and other activities of the Debt Management Account and the Exchange Equalisation Account.

National Savings & Investments have issued a number of Guaranteed Equity Bonds that expose the NLF to equity index risk. The Debt Management Office have hedged this exposure through derivatives that are held on the DMA. For the government overall (and the NLF) this ensures that the risk is negated, and replaced with a LIBOR exposure.

The Exchange Equalisation Account Act constrains how the Exchange Equalisation Account (EEA) may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold to the EEA for sterling. While the NLF remains exposed to the interest rate and exchange rate risks from the foreign currency debt it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps. By 31 March 2009, all of the NLF's foreign currency borrowings undertaken for this purpose had matured.

19 Post Balance Sheet Events

At the G20 Summit in London in April 2009, it was agreed that members would contribute a total of \$250 billion of immediate bilateral support to the IMF. At the Spring Meetings later in the month, the Chancellor announced that the UK would provide a contingent bilateral loan of \$15 billion to the IMF as its share of the \$250 billion. Once the terms of the loan have been agreed and documented, it will be available for the IMF to call on if required. If called, a loan given by the NLF would give rise to a claim on the IMF and an asset on the NLF's balance sheet.

20 Date of Authorisation for Issue of Account

The Account was authorised for issue by the Accounting Officer on 16 July 2009.

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